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THE BERL FORECASTS PANEL

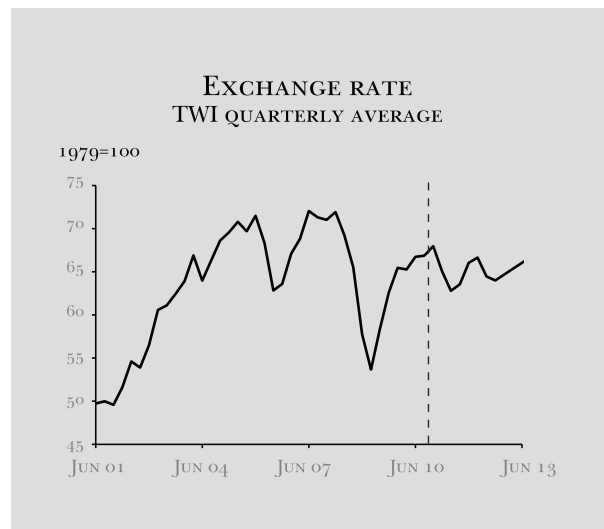
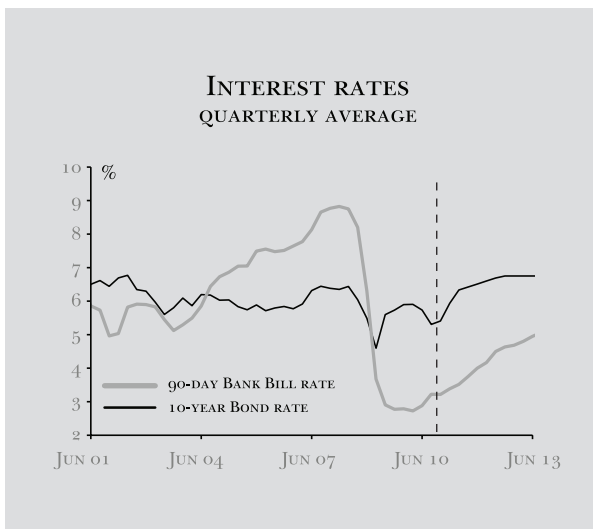
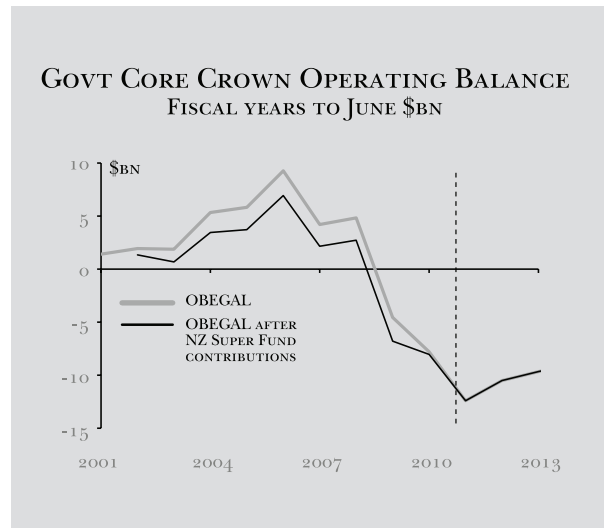
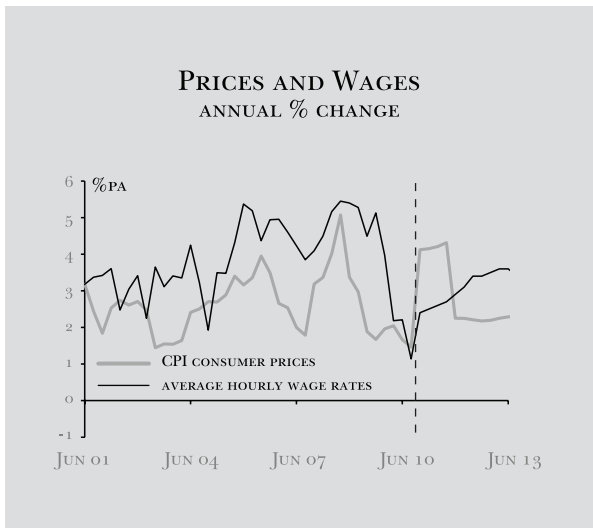
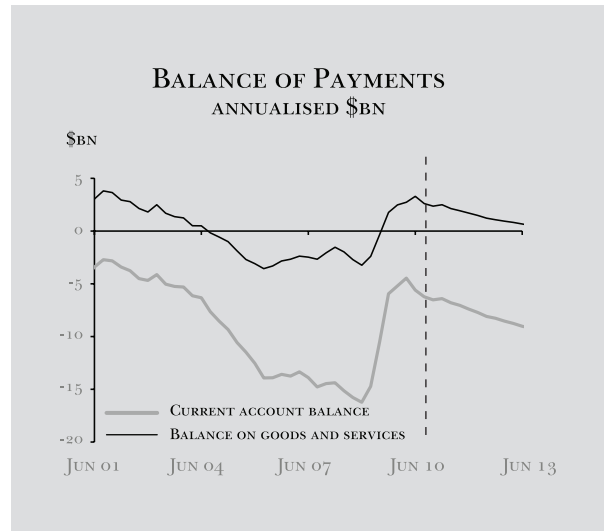
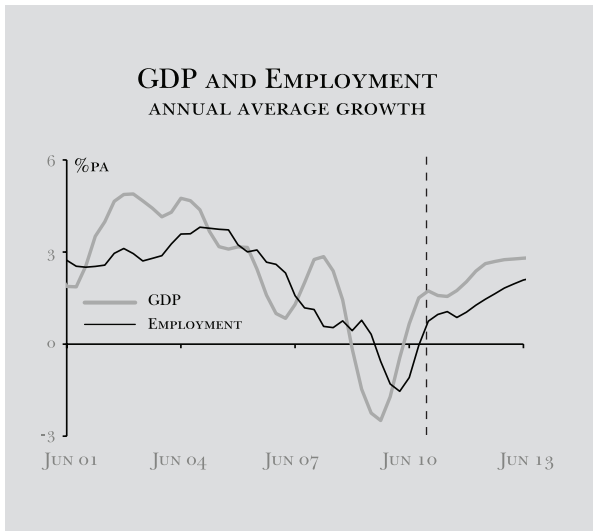
Chief Economist

Ganesh Nana

Contributors

Allan Catt, Hugh Dixon, Kelly Dustow, Amapola Generosa
Jason Leung-Wai, Rawinia Kamau, Amanda Lynn
Wilma Molano, Nathaniel Robson, Kel Sanderson
Adrian Slack, Fiona Stokes

FORECAST SUMMARY



Detailed data tables (annual and quarterly figures) for the numbers and charts in this document are available to subscribers on request.

THE PICTURE

- The New Zealand economy is forecast to grow by an average 1.9% in the year to March 2011. Growth of 2.5% and 2.8% is forecast for the following two March years.
- Constrained credit and profitability prospects mean business investment spending will not rebound sufficiently to underpin a more rapid growth scenario.
- Export-led growth is increasingly reliant on the forestry (in particular, logs) sector. Drought heightens the risks to meat and dairy product exports, while kiwifruit, wine and apples also face challenges.
- While official forecasts for the short-term outlook have been revised down, there remains an optimistic return to 'business as usual' growth patterns based on a similarly optimistic bounce in business investment spending. This remains the primary point of difference between the BERL forecast and those of the Treasury and the Reserve Bank.
- The outlook for the Government's fiscal position is set to cast a shadow over medium-term prospects. With international financiers in no mood to further accommodate highly indebted economies like New Zealand, the government risks becoming pre-occupied with the need to operate within ever stricter spending constraints. Without a similar focus on private sector income growth, the spending restraint scenario sets an unappealing picture for New Zealand's economic prospects over the medium term.
- The immediate short term sees ongoing modest activity in the retail sector. Activity in the new house building sector remains well below that necessary to balance supply to demand. Migration inflows continue to ease over the coming six months, but remain positive.

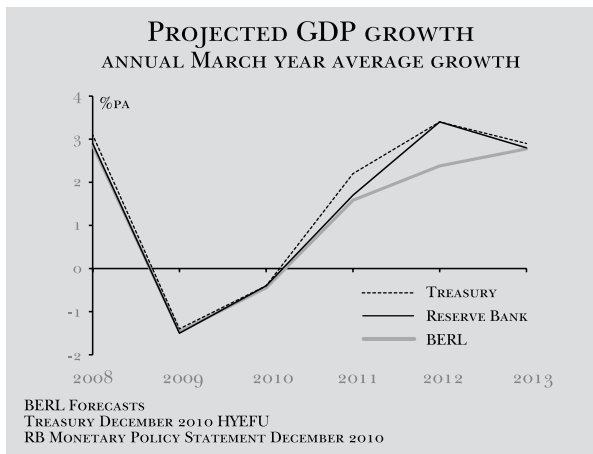
KEY INDICATORS: FORECAST SUMMARY AND COMPARISONS						
	2008	2009	2010	2011	2012	2013
Real GDP						
March year average % change						
BERL	2.9	-1.5	-0.4	1.6	2.4	2.8
Reserve Bank	2.9	-1.5	-0.4	1.7	3.4	2.8
Treasury	3.1	-1.4	-0.4	2.2	3.4	2.9
Current Account Balance						
March year % of GDP						
BERL	-7.9	-8.0	-2.4	-4.7	-6.6	-7.3
Reserve Bank	-7.8	-7.8	-2.4	-1.9	-2.7	-4.6
Treasury	-7.8	-7.9	-2.4	-2	-4.8	-6.8
Export volume growth						
March year average % change						
BERL	3.2	-2.9	3.0	3.3	3.3	3.6
Reserve Bank	3.2	-2.9	3	1.9	4.5	2.2
Treasury	2.9	-3.4	3.2	1.8	4.5	3
Private non-hsg investment growth						
March year average % change						
BERL	11.2	-4.6	-14.8	6.5	3.3	3.0
Reserve Bank	8.4	-4.5	-11.6	5.2	8.5	10.3
Treasury	4.7	-1.9	-11.4	6.3	12.3	5.1
<small>Reserve Bank : Monetary Policy Statement, December 2010 Treasury : Half-Year Economic and Fiscal Update, December 2010</small>						

COMMENTARY compiled by Ganesh Nana

At the beginning of 2010 many forecasters and commentators were lining up to proclaim the end of the recession, a swift recovery and a rapid return to a business as usual economy. After a few promising months the mood darkened and the incipient recovery stalled. Further gloom from abroad added to our woes until, three months ago, talk turned to the prospect of a double-dip recession. The headline writers remain employed.

Throughout this period we have suggested that expecting a rapid return to business as usual appeared to be optimistically based more on hope than evidence. However, we have steered clear of the doom merchants comparing prospects to those of the 1930s depression. Our analysis of the evidence, interpretation of the data, as well as knowledge of the experience and history of the fundamental imbalances in the New Zealand economy has underpinned our stance. A double-dip recession may still be avoided, in an official statistics sense. If so, it will be borderline.

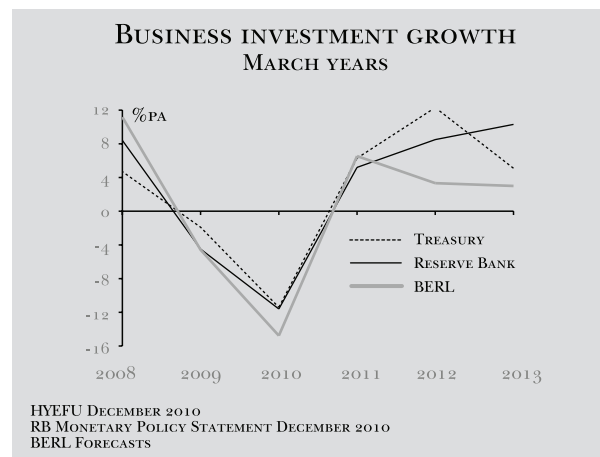
Either way, the New Zealand economy will continue to experience disappointing rates of growth. As we have advised throughout the past year, the worst may be over don't expect a rapid improvement in economic conditions.



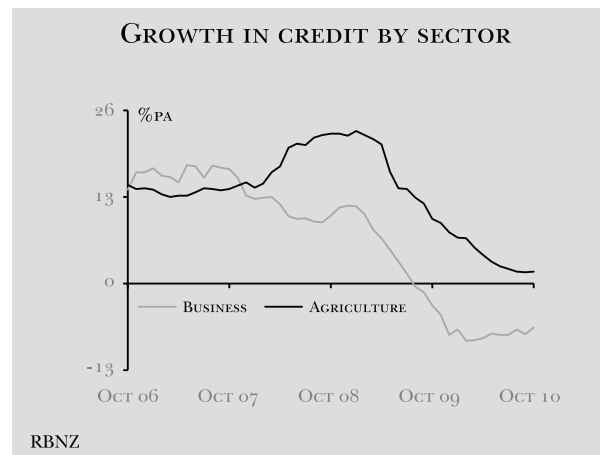
We expect GDP growth for the year to March 2011 to average 1.9%. Growth will remain muted, with 2.5% and 2.8% average expansions in the following two March years. Our forecast diverges from the latest forecasts from the two official agencies – the Reserve Bank and the Treasury – in our assessment of the strength of the recovery beyond the short term.

While the weakness over the short term is acknowledged and agreed (indeed, it seems it is finally indisputable), both official agencies retain an optimistic view that business spending will rapidly recover thereafter. In particular, the rebound in business investment expenditure is noticeable and remains the primary driver of the official forecasts of economic growth.

The year to March 2011 sees business investment record positive growth, following the previous year's plummet. However, the Treasury expects business investment to soar a further 12% through to March 2012, while the RB expects a marginally less dramatic 8.5% and a further 10% expansion in the March 2013 year. Remarkably, their forecasts for business spending do not appear to have been significantly revised over the past 6 months, despite the marked deterioration in prospects.



We contend such a significant rebound in business investment relies not only on a recovery in sentiment, but also on an easing in the credit conditions. With credit to the non-agriculture business sector some 10% below year-earlier levels we don't see conditions conducive to an investment led recovery arising out of the business sector. And looking ahead, the global appetite for lending is not high especially to heavily indebted countries like New Zealand. Consequently, we retain a subdued forecast for business investment.



Of particular relevance here is the recent forecasts for the Government's fiscal position. The imbalance forecast in the May Budget suggested an Operating Balance excluding gains and losses (OBEGAL) of the order of \$8.6bn for the June 2011 financial year. Six

months later, the forecast OBEGAL for this financial year has been revised to \$11.1bn. Part of this revision is attributable to costs arising from the Christchurch earthquake, but the majority can be put down to the consequences of a recovery far more subdued than originally forecast. Of even more significance, however, is the longer-term forecast for a return to surpluses. Again, despite the revisions to the short-term forecasts, the latest Treasury forecast continues to expect a return to a significant OBEGAL surplus in the 2015/16 fiscal year.

Given the current mood of international financiers, any slippage in the forecast return to surplus would have likely triggered much closer inspections from credit rating agencies and the like. This prospect may well have weighed heavily on the shapers of the Treasury forecast. Without doubt, such a prospect will continue to underpin yet another inspection of the Government's expenditure programs.

And this prospect is likely to shape the prospects for the New Zealand economy over the coming years. The prospect of even further constraints on access to international credit and finance will keep government expenditure control at the top of any administration's priority list. This is likely to severely constrain government policy options (irrespective of the political complexion or hue of the administration) over the next few years. This will spill over into the private and household sector, where the impetus for behaviour change will focus on spending restraint.

Many will see this as a major step forward. And, yes, the much-vaunted rebalancing of the New Zealand economy required spending restraint as one element. However, the other vital element in such a rebalancing remains conspicuous by its absence – that of income growth. In the absence of private sector income growth, a focus on spending restraint risks a downward spiral

towards inferior or outmoded machinery, technology, infrastructure, skills, networks and ever lower productivity and profitability. Whether private sector income growth can rise in tandem with public sector spending restraints remains yet to be determined. Past experiences are not promising in this regard.

The immediate short-term picture is becoming cloudier. The European sovereign debt crisis may yet have more months to play out, as governments continue to argue over the costs of bailing out fellow Euro economies. Apart from the impact on credit supply, this has also helped the NZ\$ surge to new highs. Although it has recently retreated from such highs, the NZ\$ remains at a level singularly unhelpful for any export-led recovery. Furthermore, drought conditions in several regions have the potential to derail dairy and meat production volumes, while kiwifruit, wine and apple exports all face their own challenges. The leading light for the external sector remains forestry exports – or, more correctly, log exports with annual totals up 19% in volume and 26% in value.

On the domestic front, retail sales remain subdued. Relatively strong volume figures (up 2.7% on year-earlier levels, for core retail sales categories) are being recorded next to weak turnover figures (up on 1.3% on year earlier). These suggest price deflation in the retail sector – confirming significant price reductions and margin cutting in recent months.

Building and construction has also responded weakly during the recovery phase. Activity in the residential buildings sector remains lacklustre, with consents issued over the latest three months being nearly 11% below year-earlier. Numbers for the year have again slipped, with the 12 months to October falling below 16,000. Consents for non-residential buildings are similarly low, with the year to October some 18% below year-earlier levels in area terms.

Potential positive influences come from migration, although this too has eased with net inflows for the year to October totalling only 12,600. We expect this to ease further to around 6,000 to 8,000 for the March 2011 year, before slowly recovering.

So, while it would be a dramatic exaggeration to describe the current New Zealand economic landscape as bleak, the 2011 scenario remains unlikely to be any more palatable than that of recent months.

SELECTED MONTHLY INDICATORS
3 MONTH TOTAL % CHANGE ON SAME
PERIOD PREVIOUS YEAR

Month	Car registrations	Retail sales (exc mv's)	New dwelling permits	Intermediate imports Excl oil	Capital imports (plant)	Visitor arrivals	Mach & eqmpt expts	NZBNZ Survey business confidence*	NBNZ Survey own activity *
Jan 10	6.0	2.0	25.4	-29.3	-27.1	4.1	-11.4	na	na
Feb 10	14.3	1.1	25.8	-21.9	-25.9	5.2	-1.7	50.1	41.9
Mar 10	25.8	1.3	32.3	-18.5	-20.4	5.6	-1.7	42.5	38.6
Apr 10	34.3	1.6	35.4	-13.3	-14.5	3.0	-3.5	49.5	43.0
May 10	34.0	1.1	27.7	-8.5	-12.7	1.5	1.4	48.2	45.3
Jun 10	35.4	0.9	23.5	3.3	-12.1	0.5	9.9	40.2	38.5
Jul 10	27.0	0.9	18.4	11.6	-6.5	3.7	15.0	27.9	32.4
Aug 10	23.3	1.2	16.1	5.6	2.4	5.2	18.4	16.4	25.7
Sep 10	18.1	1.3	3.3	2.7	18.2	3.0	13.5	13.5	26.7
Oct 10	15.7		-10.7	2.5	18.1	1.2	-27.0	23.7	30.5
Nov 10	17.2							33.2	35.3

Statistics NZ; NBNZ # net expecting improvement

THE MĀORI ECONOMY – A SLEEPING GIANT ABOUT TO AWAKEN?

by Rawinia Kamau

The Māori economy dates right back to the migration. When Māori settled New Zealand they carried an economy with them, as one example, bringing the kumara across the Pacific. As original resources ran out, Māori adopted a more sustainable economy, based on cultivating kumara and fern root, and a careful harvest of the forests, the seashore and the sea. Tribes (iwi) were self sufficient in most resources, but there was additional trade between iwi.

With the arrival of the Europeans, the Māori quickly began to trade food, especially pigs and potatoes and other resource for European wares such as nails and muskets. At first some European settlers survived only because of the supply of Māori food, often carried along the coast by Māori-owned schooners. Māori gladly ate the new foods that the European introduced. Following loss of land and a declining population from the mid-19th century, the Māori economy became increasingly marginalised. Despite living almost entirely rurally, Māori found it difficult to take full advantage of the pastoral farming revolution. After the Second World War, Māori moved to urban centres to find jobs and prospects.

Today the Māori economy is an integral part of the New Zealand economy and spans several industries. In the BERL model of the New Zealand economy, there are 16 industries incorporating the Māori economy. However traditionally, conversations about the Māori economy are focussed around the 3 'Fs' – namely fisheries, forestry and farming. Here's a summary of these:

FISHERIES

Māori control up to 37% of New Zealand's domestic fishing quota. In 1992, the government made an agreement with Māori that involved purchasing fishing assets, valued then at \$170m. The 'Sealord deal', as it became known, brought Māori interests in New Zealand's fisheries and seafood industry. Since then, commercial activity by a number of Māori groups have seen those interests expand.

The government also agreed to give the Māori Fisheries Commission 20% of the quota for each new species that went into the Quota Management System. Both the 1989 and 1992 deals were implemented in law.

Aotearoa Fisheries Limited (AFL) was formed as a result of a pan-tribal agreement, followed by the passing of the Māori Fisheries Act in September 2004. AFL is made up of a 50% shareholding in Sealord and Prepared Foods Ltd; and 100%

ownership of Moana Pacific Fisheries, Chatham Processing, Pacific Marine Farms and Prepared Foods Processing.

FORESTRY

Māori have a large ownership interest in forestry land including around 36% of pre-1990 forests. Māori make up a large part of the forest industry workforce, own large areas of indigenous forest and land used for plantation forestry, and are likely in future become significant plantation forest owners. Māori currently own at least 14% of the land underlying plantation forests and this proportion will continue to increase in future as a result of ongoing Treaty settlements. For example, in June 2008, the Crown signed a Deed of Settlement with the seven iwi who are members of the Central North Island Collective (CNI) – Ngāi Tūhoe, Ngāti Tūwharetoa, Ngāti Whakauae, Ngāti Whare, Ngāti Manawa, Raukawa, and the Affiliate Te Arawa Iwi and Hapū. Together the tribes have recovered ownership of the land under Kaingaroa and eight other central North Island forests. The 176,000-hectare estate land is estimated to be worth \$196m. Since 1989, the owners of the forests on that land have been paying rent for the Crown Forest Licences (CFL) that entitle them to grow trees there. The rentals were collected on behalf of Crown and Maori by the Crown Forest Rental Trust (C FRT). This trust that has used the interest from the accumulated rentals to finance claims' research and other activities. The accumulated rent on the CNI forests had reached

WAIARIKI FORESTRY SETTLEMENT ASSETS,
VALUE AS AT 2009, (\$M)

Iwi	CFL land (ha)	Estimate land value (\$m)	Accumulated rental (\$m)
Central North Island Holding Ltd	176,000	300.0	223.0
Te Rūnanga o Ngāti Awa	9,400	18.8	16.7
Ngāti Tūwharetoa (BoP) Settlement Trust	844	1.7	1.9
Total	186,244	320.5	241.6

Source: BERL, CFRT

\$223m and was passed to the CNI collective, together with ownership of the land. Combined with other Forestry settlements in the Bay of Plenty region forestry asset base in the Waiariki region equates to over 186,000 hectares, with a value of \$321m and accumulated rent of \$242m.

FARMING

Māori farming is still a key part of the Māori economy. Evidence of the success and continued progress in this sector is celebrated by the rekindled Te Ahuwhenua Trophy, awarded to the Māori 'Farmer-of-the-Year'. Maori collectively-owned land trusts and incorporations have operated for many years as corporate farming entities.

The rejuvenated Te Ahuwhenua Trophy has seen competition among the Māori trusts and incorporations of several thousand hectares with thousands of head of stock, extensive agro-forestry, dairying, geothermal generation, horticulture and strategies for continued expansion and productivity gains. Their boards and management engage in debates over sustainability, carbon credits, and added-value exports that require international benchmarking for best practice in financial, legal

and managerial operations. The 2009 winner, Pakarae Whangara B5 (based at Whangara of Whalerider fame, 20km north of Gisborne), was formed in 2006 from the amalgamation of two neighbouring farms, Pakarae and Whangara B5 to form a 5,600-hectare property that now runs a Romney-based flock of over 27,000 sheep, and a herd of over 18,000 Angus-cross cattle. The Trustees have bigger plans for future development. Such examples are dotted through the regions, bringing benefit to the New Zealand economy from Cape Reinga to the Bluff, and even Rakiura or Stewart Island.

As it stands today, the Māori economy produces currently about 5% of New Zealand's production GDP. This equates to just under \$10bn per annum. Is that significant? Some say yes, others say no. Beyond the '3 Fs', other key sectors in the Māori economy include manufacturing, business services and health, education and other services. As the asset base continues to grow, the opportunity for the Māori economy to grow and contribute more to New Zealand's GDP is a positive for both Māori and non-Māori.

GLOBAL SITUATION compiled by Jason Leung-Wai, Hugh Dixon and Wilma Molano

THE WORLD SCENE CONSENSUS FORECASTS						
	Real GDP % Change			Consumer Prices % Change		
	2009	2010	2011	2009	2010	2011
Australia	1.2	3.3	3.5	1.8	2.9	3.0
China	9.1	10.1	9.1	-0.7	3.0	3.0
Hong Kong	-2.8	6.0	4.6	0.6	2.5	3.1
India	7.4	8.4	8.5	12.4	9.4	6.8
Indonesia	4.5	6.0	6.1	4.8	5.1	6.1
Japan	-5.2	3.0	1.2	-1.4	-0.9	-0.3
Malaysia	-1.7	7.1	5.0	0.6	1.7	2.5
New Zealand	-1.7	2.1	3.2	2.1	2.4	4.2
Singapore	-1.3	14.4	4.7	0.6	2.8	2.5
South Korea	0.2	6.0	4.2	2.8	2.9	3.1
Taiwan	-1.9	8.4	4.1	-0.9	1.1	1.5
Thailand	-2.2	7.5	4.3	-0.9	3.4	2.9
Asia/Pacific	1.5	6.3	5.2	0.9	2.3	2.5
North America	1.9	6.4	5.1	0.8	2.2	2.3
Latin America	-2.6	2.7	2.4	-0.2	1.6	1.5
Western Europe	-1.7	5.5	4.0	5.7	7.3	7.1
Eastern Europe	-4.1	1.7	1.5	0.6	1.7	1.7
Eastern Europe	-5.2	3.9	3.9	6.3	6.2	5.9

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AUSTRALIA

Australia over the last year has been experiencing very strong growth in the value of its exports, which continues to fuel a healthy merchandise trade surplus.

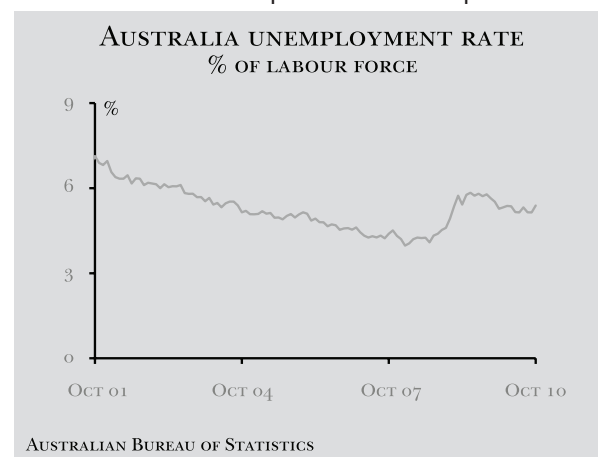
For the year ending September 2010 quarter, Australia exported A\$62bn worth of goods. This is a 34% increase on the September 2009 quarter and well above the 1.6% recorded in the June Quarter. This growth in the value of export of goods has been driven by strong annual growth in raw materials. The largest value increases have come from the following industries: Metal ore mining - up 84%, Coal mining - up 40%, and Oil and Gas - up 49%.

Imports of goods over the year to September 2010 were A\$55bn. This is an increase of 9.5%, with 4.9% accruing since the June 2010 quarter. The growth in imports over the last year to September 2010 has come from the following industries: Transport equipment - up 21%, Oil and Gas - up 24% and Manufactured machinery and equipment - up 6.2%.

The latest GDP data for Australia shows that the quarterly increases in GDP are starting to slow, with GDP growing by 0.2% from the June 2010 quarter to the September 2010 quarter. This is the lowest quarterly increase in GDP since December 2008,

which was during the height of the recession. This still gives a strong annual growth in GDP of 2.7% for the year to September 2010. This slowing increase in GDP will only be of concern if it continues over the next few quarters. GDP growth from June 2010 to September 2010 was fuelled by increases in building and structures investment, up 5.3%, and household consumption, up 0.6%. Looking at GDP contributions by industry, the largest contributor to GDP growth in the latest quarter came from an 18.5% increase in agriculture, forestry and fishing.

The unemployment rate in Australia has remained the same for the September 2010 quarter as it



was in the June 2010 quarter, at 5.2%. While the unemployment rate has remained the same, the labour force participation rate has increased from 65.3% in the June quarter to 65.5% in September quarter.

UNITED STATES

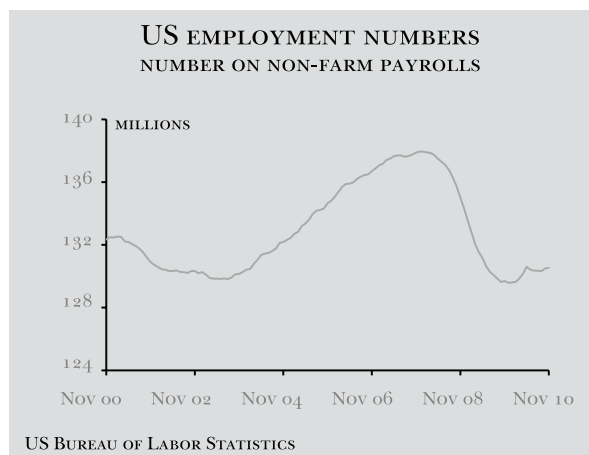
In November, The United States Federal Reserve announced a second round of quantitative easing, labelled "QE2". This easing means that the Federal Reserve will be buying back US\$600 billion of long-term Treasury securities over the period to June 2011. Quantitative easing works through lowering the yield on long-term bonds and pushes investors to look for alternative investments, such as stocks or even global investments. This then can affect the economy in three ways. Firstly, lower yields push borrowing and investment. Secondly, higher stock prices from more investment in stocks can raise household wealth, encouraging more spending. Thirdly, the lower yields encourage overseas investment, which can lower the value of the dollar, which in turn can boost US exports.

If, in June 2011 when this second round of quantitative easing ends, the US economy is still struggling along, then we could very well see "QE3" a third round of quantitative easing undertaken by the Federal Reserve as they continue to try to boost the US economy.

In early December the US government announced that tax cuts due to end on the 31st of December will be extended for a further two years. This will ensure that families already struggling from the recent recession will not have to pay up to an extra US\$3,000 a year in federal income tax.

These measures (easing and extension of tax cuts) should help ensure that recent strong GDP growth in the United States continues. In the September quarter, GDP was 0.5% higher than in the June quarter and 3.1% higher than in the September 2009 quarter. Annual GDP growth hasn't been this high since the September 2005 quarter. This high annual growth in GDP has been fuelled again by strong growth in private domestic investment, up 24% over September 2009 (the bulk of this increase comes from investment in equipment and software) and personal consumption, up 1.9%.

While there has been strong growth in GDP, there has not been much movement in the unemployment rate, which sits at 9.6% in the September 2010 quarter, only slightly down from 9.7% in the June quarter. Recently released data for the month of November showed a jump in the monthly unemployment rate to 9.8% after only a small number of new jobs were created. If this continues in December, the quarterly unemployment rate could end up rising again.



The Federal Reserve's interest rate remains at just 0.25% and is unlikely to rise in the short-term with annual inflation for the September quarter at 1.1%.

ASIA

CHINA

The Chinese economy started quarter one with annual growth of 11.9%, but slid down to 9.6% annual in the third quarter. This figure indicates that the Government's cooling measures to slow growth this year appear to be having some effect. However, more surprising to investors was the move by the People's Bank of China to increase interest rates by 25 basis points. This rate hike takes the one-year lending rate to 5.56%, while the one-year deposit rate has gone up to 2.5%. This is the first time that the Bank has raised its benchmark rates in three years.

While the GDP figures will please the country's fiscal policy makers -who have been trying to cool the pace of growth- the stubborn inflation numbers will be more of an issue.

The World Bank upgraded its 2010 growth forecast for China by half a percentage point to 10%. However, the World Bank also cautioned that Beijing should further increase interest rates to contain inflationary pressures. The bank said in its quarterly report on China that the Country's trade surplus has rebounded sharply and would likely continue to grow. It predicts a surplus of US\$247bn in 2010, US\$273bn in 2011 and US\$314bn in 2012.

INDIA

The growth in India's economy during the last quarter of 2010 was higher than expected and is putting pressure on the Reserve Bank of India (RBI) to tighten monetary policy. Annual GDP grew 8.9% in the September quarter -- matching the revised figure for the previous quarter. Investment growth slowed on an annualised basis to 11.1% from 19% in the previous quarter, while annualised private

consumption accelerated to 9.3% from 7.8% in the previous quarter, pointing to inflationary risks.

Just like the People's Bank of China, the RBI decided to increase borrowing costs by another 25 basis points. This is the sixth time that interest rates have risen this year. The central bank's decision to tighten monetary policy further reflects its ongoing efforts to tame inflation.

JAPAN

In our previous issue, we reported that Japan was relinquishing its title of 'second largest economy' to China. But latest indicator data on the third quarter of 2010 seems to negate this sentiment. Japan's GDP grew 0.9% in the July to September period, an annualized pace of 3.9%. This third quarter growth was entirely due to stronger domestic demand, while net exports were flat on the quarter. From a year earlier, third quarter GDP rose 4.4%, the third straight year-on-year rise, after rising 2.7% in the second quarter.

However, the strong yen is weighing on export growth; and Japan's public debt as a share of GDP is the highest among developed countries.

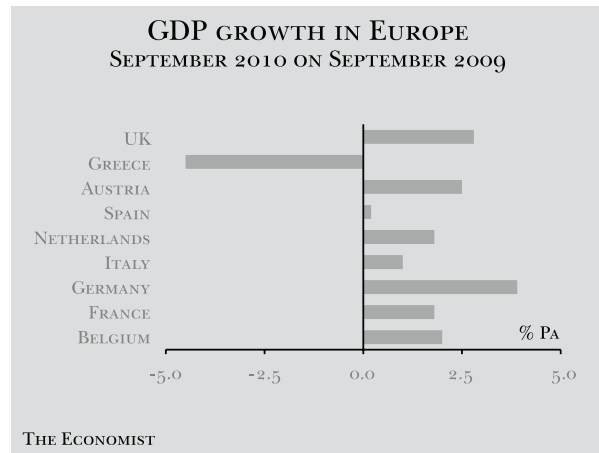
HONG KONG

Hong Kong's chief executive, Donald Tsang, outlined the Government's commitment to community and social welfare for the remainder of his term, which marks a shift away from the measures put in place two years ago aimed at promoting economic growth. The policy direction of the Government in the coming year will place more emphasis on housing and the welfare gap, and caring for the elderly. With property prices rising, the authorities are hoping to stabilise the market by ensuring sufficient supply of land and boosting the supply of private residential units. Other measures announced include help for the middle classes with apartment purchases, providing public rental housing for low income groups, as well as the provision of quality infrastructure. In a bid to close the welfare gap, the Government will implement various social welfare measures including the introduction of a minimum wage. Various subsidised welfare services will be directed to the elderly.

The Government also indicated that it intends to enhance its relations and financial integration with mainland China in order to strengthen Hong Kong's role as a global financial hub.

EUROPE

The European economy remains a mixed bag, with Ireland's bail out the latest manifestation of the GFC's tentacles. Greece and Ireland have already accepted a bailout from the EU/IMF; and Portugal and Spain are likely to follow suit. On the other hand, core economies in the EU- Germany, France and



Britain - appear to be performing well. The disjointed response by EU members to the austerity responses to Greece and Ireland, and the potential need to bail out Portugal and Spain, has drawn questions as to the commitment to the Euro Zone and the viability of the Euro as a common currency. This however, is a longer-term issue.

EUROZONE

As a whole, the Euro zone economy is expected to expand by around 1.7% this year, falling slightly in 2011 before picking up again in 2012. Looking at the performance of major economies in Europe gives a more positive outlook.

German industrial production rose by 2.9% on the month (seasonally adjusted) and unadjusted imports rose to a post-war record in October – a sign of rising domestic demand. Unemployment fell for a 17th straight month to 7.5% and the number of people out of work fell to 3.14m, the lowest since December 1992. German business confidence is high; and the European Commission has forecast 2.2% economic growth in 2011, following 3.7% growth in 2010.

France was a recipient of increasing German demand, exporting more to Germany in October. France's trade deficit narrowed to €3.4bn from €4.4bn in September. GDP growth for the year is expected to be around 1.6%, with projections from the Bank of France suggesting fourth quarter growth of 0.6%.

UNITED KINGDOM

UK manufacturing figures were upbeat rising by 0.6% in October. This is the biggest month-on-month increase since March; and 5.8% higher than the same month a year ago. This provided further evidence that the recovery of the industrial sector is picking up pace.

GDP in the UK grew by 0.8% in the September quarter, meaning annual growth of 1.8% for the year, well above official forecasts. Major changes are in store for the region though, with an increase in VAT (GST) to 20% and major cuts in public spending kicking in next year.

LABOUR MARKET CONDITIONS compiled by Kel Sanderson

LABOUR MARKET INDICATORS 000S PEOPLE						
June quarter	2008	2009	2010	2011	2012	2013
Full-time employment	1,677	1,652	1,669	1,685	1,716	1,757
Part-time employment	507	514	497	503	508	513
Total employment	2,184	2,166	2,166	2,188	2,224	2,270
FTE employment growth %	0.6	-1.2	0.6	1.0	1.8	2.3
Unemployment	88	134	155	158	155	140
Official unemployment rate %	3.9	5.8	6.7	6.7	6.5	5.8
Labour force	2,272	2,300	2,321	2,346	2,379	2,410
Participation rate %	68.2	68.2	67.8	67.8	67.8	67.8
Not in labour force	1,059	1,073	1,100	1,116	1,129	1,142
Working age population	3,330	3,372	3,421	3,462	3,508	3,552

Statistics NZ and BERL calculations BERL Forecasts

The employment market may now be at a very significant turning point. The yearly increase in employed, as measured by the Household Labour Force Survey (HLFS), has fallen from a 30,000+ increase per year in 2007 through to a 20,000 increase in 2008, and a 53,000 decrease in employment in the year to December 2010. Employment in the March 2010 quarter was only 3,000 less than in the March 2009 quarter, which is a 50,000-a-year turnaround in the numbers.

We asked in June -is this a sharp turning point that will lead to strong employment growth from now on? Employment in the September 2010 quarter appears to support this, with the continued big bounce-back in figures going to a 38,000+ on year-ago figures. And the HLFS seems to be somewhat in line with the Quarterly Employment Survey (QES).

QES data shows that part-time employment increases are preceding the increase in full-time employment. We would expect this to happen when we have a rather tentative recovery - as we do now. This bounce-back seems to indicate a forecast of about 2% employment growth going forward. However, the real question now is when will we reach 2% growth in employment? (This is about 45,000 people per year.) Our expectation is that fluctuations will return to the quarterly employment figures and recovery to 2% growth in employment will be achieved in 2012-2013.

THREE KEY INDUSTRIES

Three key industries have had a big impact on our slowdown and are most likely to help pull us up again. These are processing and manufacturing, construction, and professional and administrative services.

The processing and manufacturing industries are heavily dependent on exports and household formation, which is in turn dependent on migration. Migration is fairly flat at the moment and unlikely to

increase until at least the Rugby World Cup in 2011. Processing and manufacturing has had its deepest cuts for decades with jobs, hours worked and total earnings per week all down by 10% to 15% for much of 2009 and 2010. In the last three months the total number of hours worked per week has just climbed above year-ago figures, while hours per worker have moved to be about 4% higher. Job numbers are still declining, but may turn positive within six months.

The state of construction industry has also been about as bad as it was back in the 1991-93 recession. All parameters have been negative since September 2008, and for the last year job numbers, total earnings and hours worked have all been between 10% and 15% below year-ago figures. There are only tentative signs of this industry struggling back to stop the decline, and certainly no indication of spontaneous growth.

Professional and administrative services businesses have generally been in positive territory since 1994, but in recent times their performance has been very erratic. The total weekly earnings increases in this industry have fluctuated between 5% per annum and 20% per annum, even through the 2008 to 2010

EMPLOYMENT CHANGE BY INDUSTRY
SEP 10 CF SEP 09



STATISTICS NZ

period. In the year to September 2010, job numbers increased by about 2%, and weekly earnings by about 5%.

Overall, we are expecting a somewhat erratic struggle within the labour market as it moves back into positive territory over the coming 12 months.

THE DRIVER OF THE ECONOMY

Why is the labour market so important? The main reason is because it provides people with an income to save, invest, consume and pay taxes. It drives the rest of the economy.

We have looked at the QES to see how well the labour market has been providing us with incomes over recent years. Workplaces in the QES account for about 77% of the total employed, or in other words the HLFs survey of people in their homes shows that there are 31% more employed than those in the QES workplaces. The QES workplaces exclude agriculture, horticulture, fishing, and all of the self-employed. These job exclusions are likely to generate slightly higher than average incomes, and so adding another 25% to QES earnings should be a reasonable estimate of total earnings.

The QES figures indicate that from 2001 to 2005 we were pumping about \$62 m per week into our incomes each year. From 2006 to September 2008, we were pumping in about \$90 m per week, but since then and up to September 2010 this figure has dropped to an average \$38 m per week. In the year to June 2009, this increase dropped as low as \$7 m per week.

What this means in terms of our ability to spend and save looks a bit like this. Our household consumption expenditure is about \$108bn per year. If consumer prices are increasing by 2.5% (as they have done in recent years) we need an extra \$2.7bn a year to cover inflation. This is about \$52 m a week. Since September 2008 we have not been earning enough to keep up with inflation on our consumption let alone earning enough to reduce our debt, which we apparently desperately want to do. In the year to June 2009 we were \$45 m a week behind inflation, or about \$2.3bn a year behind. No wonder the economy was flat.

EARNINGS IN RECENT MONTHS

For the first three quarters of 2010 our earnings averaged just \$52 m a week higher than the same period in 2009. This should have just covered inflation

on the consumption expenditure. The last September quarter was \$57 m a week above 2009, which is finally starting to edge ahead and give some small increase in disposable incomes.

MIGRATION

The net migrant flow seems to be flattening out at about 6,000 to 8,000 net inflow. This is not much stimulus to the economy, but it may be lifted by the Rugby World Cup in 2011.

Our migration experience of recent years leads us to the conclusion, "when the going gets tough, the tough stay home". Two recent examples of this phenomenon are the migrant departures from New Zealand to Australia, and secondly the migrant arrivals into New Zealand from Europe.

In 2008 50,000 New Zealanders departed long-term for Australia, as their first intended home. By the March year 2010, that figure had dropped to under 33,000. With confidence in the planet, and particularly Australia's economy returning, the New Zealand outflow has lifted and the year to October 2010 saw 37,500 New Zealanders departing.

The other example, migrants from Europe to New Zealand, has been responsible for a healthy inflow of migrants over the last decade. From 18,000 people in 2000, the arrivals increased to 30,000 in 2006. They eased back to 26,000 in 2009, and now they seem to be really spooked by the prospect of coming to the other side of the planet. The arrivals in the year to October 2010 were 23,000 and dropping.

Arrivals from other parts of the globe have held up, and total arrivals seem to have bottomed out at about 78-80,000 a year. Departures seem to also be fairly stable, at about 72,000 per year. This indicates a net annual inflow of 6,000 to 8,000 people continuing through until about March 2011. Shortly after that we can hope for some increased flow of people on 'extended OEs' intending to get jobs and settle here in time for RWC 2011 reveries. Some of these people are already here, which is a good sign.

Overall, until late 2011 we do not expect a significant impact on house construction and household formation, with all the expenditure on furniture, whiteware, mortgages and other things that go with that, due to migration. But, we do expect migration to be firming thereafter.

PERMANENT AND LONG-TERM MIGRATION 000S PEOPLE						
Year ended June	2008	2009	2010	2011	2012	2013
Gross migrant inflow	85.2	88.3	82.3	82.0	86.0	84.0
Gross migrant outflow	80.5	75.7	65.8	72.0	70.0	70.0
Net migrant inflow	4.7	12.5	16.5	10.0	16.0	14.0

Statistics NZ

BERL Forecasts

MONETARY SITUATION compiled by Allan Catt

Quarter	MONETARY PRICES QUARTER AVERAGE				
	TWI Jun 1979=100	90 day bank bill rate %	10 yr govt stock yield %	1st mortgage housing rate %	Business base lending rate %
Mar 10	65.3	2.73	5.90	5.90	10.02
Jun 10	66.7	2.88	5.73	5.98	10.02
Sep 10	66.9	3.22	5.31	6.31	10.23
Dec 10	68.0	3.18	5.41	6.39	10.30
Mar 11	65.1	3.23	5.93	6.40	10.10
Jun 11	62.8	3.33	6.33	6.52	10.18
Sep 11	63.5	3.58	6.42	6.78	10.43
Dec 11	66.0	3.83	6.51	7.08	10.68
Mar 12	66.6	4.08	6.60	7.33	10.93
Jun 12	64.5	4.42	6.69	7.67	11.27
Sep 12	64.0	4.63	6.75	7.63	11.38
Dec 12	64.7	4.68	6.75	7.68	11.43
Mar 13	65.4	4.80	6.75	7.80	11.55
Jun 13	66.0	4.95	6.75	7.95	11.70

RBNZ BERL Forecasts

It would have been a major surprise for the Reserve Bank of New Zealand (RBNZ) to have raised the Official Cash Rate (OCR) on December 9 from the 3.00% at which it had remained since July. But the Policy Assessment and the Monetary Policy Statement were, perhaps a little more pessimistic than expected, and the 90-day rate and the Trade-Weighted Index (TWI) declined on the announcement from 3.18% to 3.16% and from 67.8 to 67.3 respectively.

As to the economy, the RBNZ appears to consider recently disappointing Gross Domestic Product (GDP) figures as a temporary glitch to be corrected in later quarters and supplemented by the Christchurch earthquake expenditure. Indeed, its revised GDP forecasts for 2011 sum to a total of 3.8% compared with the September forecast of 2.7%. This high growth estimate is presumably the reason for an implied OCR increase in June and, if as we expect, growth is over-estimated, the 3.0% OCR could be further extended.

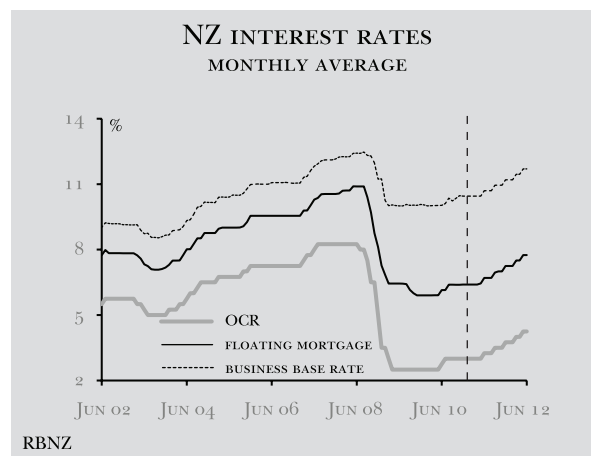
Dominating the international scene currently are the problems of the Euro-zone, notably the "contagion". This has seen markets attacking the deficit countries to degrees requiring the international bail-outs of Greece, then Ireland, and focusing at present on Portugal, Spain and Italy.

The importance of this for the New Zealand scene is that the rescue packages (involving the IMF, other Euro-zone members and a reluctant European Central Bank in

buying up bonds of at-risk members) are in effect, printing money. Taken together with further forex intervention by Japan, and with further bouts of Quantitative Easing (QE) by the Federal Reserve and the Bank of England, we have a potent recipe for the appreciation of the NZ\$ as some of this new money becomes inevitably invested in the currency market.

On the other hand, there are a number of negatives. Firstly, the unexpectedly high government deficit will increase the current account Balance of Payments (BOP). Secondly, the drought will also weaken the BOP due to reduced exports and increased imports of supplementary feed. Finally a credit down-grade by Standard and Poors' is on the cards for New Zealand. It is difficult to quantify the negative impacts compared with the positive effects of world monetary expansion. However, we judge that the international forces are stronger and less ephemeral and on balance we lean towards a strengthening trend on the TWI for the foreseeable future.

It is intolerable in this situation that the Government and RBNZ continue with the freely floating currency. It is not good enough for NZ authorities to claim that Japan and Switzerland have tried to manage their currencies down and failed; for these two countries have large trade and BOP surpluses and it is not surprising the market regarded their interventions as something of a try-on. It is much less likely that the market out of sheer bloody-mindedness would oppose a firm policy by New Zealand to establish a sustainable BOP and aim at reducing a foreign debt that is drawing unfavourable comment from credit rating agencies as being one of the largest per capita in the world.



INTEREST RATES

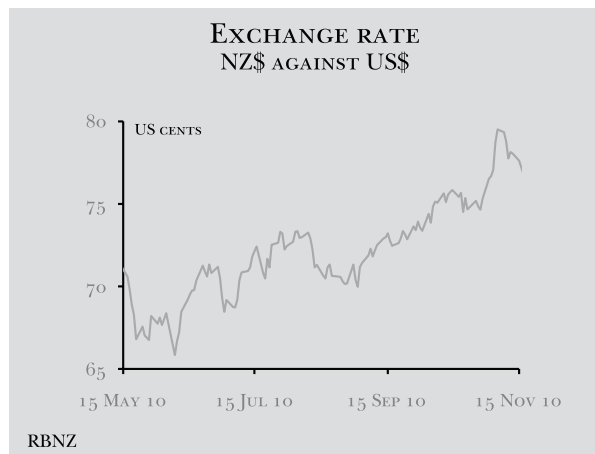
With the OCR likely to remain unchanged at 3.00% until mid-2011 at the earliest, the 90-day rate is likely to remain virtually unchanged at and around a 3.17% level for the next few months. It could rise a few points if, as the RBNZ expects the economy recovers and if inflationary pressures appear, but we believe both of these possibilities are unlikely.

The 10-year bond rate, on the other hand, has risen slightly following the RBNZ's review last week. At 5.83% it has continued to rise since the beginning of October when it stood at 5.02%. This is in line with the sale of some bonds overseas, which we think could continue. Retail interest rates according to latest RBNZ data shows the average floating first mortgage rate for new customers at 6.39%, unchanged since August last but the business base lending rate increased from 10.34% to 10.47%. The six months deposit rate has declined, perhaps inexplicably, from 4.75% to 4.67%.

The level of bank lending in October increased only 0.2% above the September level and still below a year ago levels. Anecdotally there is still much angst in the agricultural and business sectors concerning banks unwillingness to lend, hardly consistent with RB's contention that firms' failure to borrow and invest is due to excess caution in all categories of the business community.

While authorities around the world are making progress to put in place regulatory measures to prevent a future recurrence of the excess lending of the past, they have been less successful in their efforts to correct current problems in the financial system, namely inadequate levels of bank lending. Return to normality seems unlikely in the foreseeable future and firms wishing to engage in productive investment will continue to find funding scarce and expensive.

EXCHANGE RATES



During the last three months, the TWI has peaked at over 70 early in November but since then has declined to 67.6. Over the whole period, it has averaged 67.5 compared with the average of 67 in the previous three months. Hence, a slow upward trend since early 2009 appears to have continued.

As discussed earlier, a possible reason has been the massive monetary expansion by major central banks following the near seizure of the financial system - when confidence was lost and markets for investment assets of all kinds virtually collapsed.

Financial institutions at that time were deleveraging to an extent that funding for day-to-day transactions was threatened and funds for investment in market assets such as commodities, shares and currencies were greatly reduced. In New Zealand we saw the effects in a decline in the value of the kiwi from 74 on the TWI in February 2008 to 50 a year later.

New Zealand had been a major recipient of hot money in the upswing and consequently the collapse was greater; indeed we depreciated against every currency in our 14-country traded weighted index. The depreciation was principally. However, against the former creditor currencies, namely the Yen (by 45.3%), the Yuan (by 42.4%), the US greenback (by 39.8%) and the Euro (by 28.2%).

An indication of the parlous state of the world financial system at the time is the recent revelation of the scale of support provided by the Federal Reserve. The US\$800bn TARP (Troubled Asset Relief Program) assistance programme seemed dramatic enough, but we now learn that the Federal Reserve provided rescue packages to US banks, foreign banks, hedge funds and major non-financial sector corporates on the mind-boggling scale, of US\$3.3 tn.

As these funds - plus others by other central banks - flowed into the financial system it gradually unfroze and capital outflows resumed. Exchange rates have moved back towards their previous levels, and our TWI has recovered two thirds of the decline and has been for some time at a level injurious to our tradable goods industries.

Unfortunately, the process is not over. The Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan are all engaged in additional QE and notwithstanding a series of shocks in the form of a credit rating warning, a worse than expected government deficit, an emerging drought, the negative RBNZ outlook and postponement of the expected OCR increase, the TWI increased by 1% over the last quarter.

While further downward domestic shocks are not unlikely, we lean to the view that they will be dominated by the expansionary monetary policies of the leading players. On this basis we expect the TWI to continue to be highly volatile around a gently rising trend. But it is anyone's guess - and we note the RBNZ is forecasting a rising trend until March 2011, but declining thereafter.

On the cross-rates the A\$ has strengthened against the NZ\$ and although the Reserve Bank of Australia has chosen to hold its OCR unchanged at its last two reviews, we believe the strengthening will continue. Australian growth may be faltering slightly, but it is still ahead of ours. The news is, therefore, good for exporters to Australia.

GDP GROWTH compiled by Amapola Generosa

New Zealand's economic recovery has been tepid, with recent indicators suggesting a slower pace of growth. The projected increase in GDP has been adjusted to 1.9% growth to March 2011. Weak domestic spending and modest growth in export revenues have signalled this sluggish growth ahead.

Latest figure in the expenditure side indicates that there is weak domestic demand. Although retail trade spending has shown sporadic signs of improvement, household spending behaviour remains weak. The volume of goods and services purchased by New Zealand households has been flat. Importation of consumer goods is down 2% in October 2010 on the same month last year. This scenario further suggests that private consumption is less likely to speed up growth in the first quarter of 2011.

The business sector is also prudent in spending, as purchases of capital and intermediate goods overseas dropped by around 17% and 2% respectively. Expenditure on fixed assets also slipped with building consents on factories (down 10.6%), offices (down 45%) and shops and accommodation (down 3%) down in October 2010 compared to year-earlier levels. These decreases in private sector spending have offset any increase in fiscal spending made in the last quarter of the year. On the production side,

real GDP is also projected to increase by 2.0% by the end of 2010. This favourable outlook is likely to be led by expansion in the construction sector.

Overall, GDP data suggests that the economy is in a flat patch, and household and business spending is less likely to lead the economy in the coming year. With sluggish growth ahead, there is uncertainty surrounding employment numbers and market investments, which further diminishes our expectations regarding a revival in domestic spending next year.

Although there is little prospect of fast-paced economic growth in 2011, there may be some strengthening of business confidence that could spur mild growth. There are other factors that may potentially lift GDP growth well beyond our expectations: reconstruction in the Canterbury region and the up-coming Rugby World Cup. Still, these are factors that may temporarily boost spending and activity, but only in the short run. Sustainable growth in the long run to strengthen domestic spending remains contingent on a healthy export sector. The devil is in the detail of how our position in the global market can be improved to ensure New Zealand enterprises (and, consequently, NZ Inc) profit from our dealings with our export customers.

GDP EXPENDITURE ANNUAL AVERAGE % CHANGE						
Year ended March	2008	2009	2010	2011	2012	2013
Private consumption	3.2	-1.1	0.5	1.2	1.4	2.3
Housing investment	4.4	-22.9	-11.7	14.3	2.1	2.2
Other investment	11.2	-4.6	-14.8	6.5	3.3	2.4
Govt investment	-5.4	1.4	2.7	6.0	6.3	3.4
Government consumption	4.6	4.3	1.2	1.1	-0.4	1.3
Gross National Expenditure GNE	4.9	-1.9	-3.7	3.2	2.5	2.4
Exports	3.2	-2.9	3.0	3.3	3.3	3.3
Imports	9.9	-4.1	-9.6	6.8	3.0	2.2
Gross Domestic Product GDP	2.9	-1.4	0.5	1.9	2.4	2.8
<i>Statistics NZ</i>						<i>BERL Forecasts</i>

INFLATION compiled by Jason Leung-Wai

BERL's expectation is that inflation will remain passive over the medium term. While the effects of a rise in GST will show through in higher prices in the short-term, the longer term changes will reflect the subdued New Zealand and confused global economy. We therefore expect the Consumer Price Index (CPI) to remain well within the RBNZ's Policy Targets Agreement over the medium term, without much need for monetary tightening. As expected, the RBNZ kept the OCR at 3.0% this month, citing business caution and weak household spending.

There is some underlying pressure, driven by increasing global commodity prices. The Producers Price Index (PPI) has turned in the latest quarter, with annual movements for inputs and outputs up on the previous year. However, price rises here are significantly lower than what they were before the global financial crisis.

CONSUMER PRICES

The CPI was up 1.1% in the quarter (to September), driven by higher prices in food, and housing and household utilities. This took inflation for the year to 1.5%, the smallest annual increase since March 2004.

On the year, prices increased in eight of the 11 groups monitored, led by transport, housing and household utilities and alcoholic beverages and tobacco. In terms of individual items, cigarettes and tobacco prices were up 14.5%, while petrol prices were up 5.8%. On the other hand, audio-visual equipment prices were down almost 25% on the year.

Looking at the tradable versus non-tradable components of the CPI, prices for non-tradable items continue to increase faster than that for the tradable sector. Prices for tradable goods and services increased by 0.9% on the quarter and 0.3% on the year. On the other hand, non-tradable prices were up 1.2% on the quarter and 2.5% on the year. Tradable

prices are primarily determined on the global market, whereas non-tradable sector prices are those goods and services where prices are determined primarily through domestic markets. Part, if not the majority, of this difference in inflation can be explained by the impact of the relatively high NZ\$ exchange rate on import prices.

FOOD PRICES

The impact of GST is apparent in the latest Food Price Index, with prices up 2.2% on the month, and 5.1% on the year.

The GST rise could increase food prices by 2.2%. In October, prices of nearly one in four food items rose by more than 2.0% but not by more than 2.5%. Once discounting is excluded, the prices of two in every five food items rose by 2.0 to 2.5%. Prices for three in five restaurant meal and ready-to-eat food items remained unchanged.

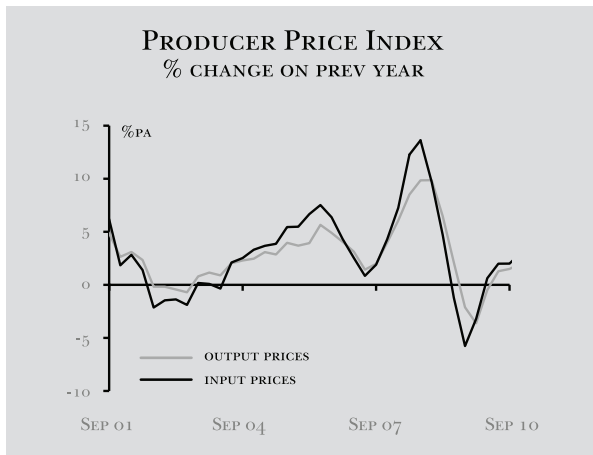
Driving price rises on the year were fruit and vegetables, with prices 16.4% higher than last year. Grocery food prices were up 4.7%, restaurant meals and ready-to-eat food prices were up 3.7%, while meat, poultry and fish prices were up 1.7%.

PRODUCER AND CAPITAL GOODS PRICES

However, producer input and output prices, along with capital goods prices, appear to be recovering after declining over 2009.

The Capital Goods Price Index rose 0.4% on the quarter and 0.2% on the year. The quarterly increase was the first in four quarters and the highest increase since March 2009. Looking at the sub-indexes, price increases continue in other construction, driven by the continuing investment in infrastructure investment. However, plant, machinery, and equipment, and residential building prices continue to remain relatively subdued.

INFLATION INDICES	QUARTERLY (MONTHLY) MOVEMENT	ANNUAL MOVEMENT
Consumer Price Index Sep 10 quarter	1.1%; up from 0.2%	1.5%; down from 1.7% previous yr
Capital Goods Price Index June 10 quarter	0.4%; up from 0.1%	0.2%; down from 2.3% previous yr
Producer Price Index (outputs) June 10 quarter	1.2%; up from 1.1%	4.0%; up from -2.1% previous yr
Producer Price Index (inputs) June 10 quarter	0.7%; down from 1.4%	3.8%; up from -3.2% previous yr
Labour Cost Index (Salary & Wage) June 10 quarter	0.6%; down from 0.7%	2.2%; down from 2.8% previous yr
<i>Food Price Index (monthly)</i>	<i>2.2% (Oct); 0.7% (Sep); -0.1% (Aug); 1.6% (Jul); 1.3% (Jun); -0.7% (May)</i>	<i>5.1%; up from 2.0% previous yr</i>



Producers prices are rebounding as well. The outputs index has risen 1.2% on the quarter, and 4.0% on the year to the September 2010 quarter. Likewise, the inputs index rose 0.7% on the quarter and 3.8% on the year. Driving up output prices was livestock and cropping farming and dairy product manufacturing. On the inputs side of the ledger, meat and meat product manufacturing was the largest upward contributor on the quarter. Together with dairy product manufacturing, these two indexes contributed two-thirds of the increase on the quarter.

LABOUR COST INDEX

Labour costs remained subdued, rising 0.5% on the quarter and 1.6% on the year. In a return to form, private sector wages (1.6%) rose faster than public sector wages (1.3%).

LABOUR COSTS AND WAGE EARNINGS ANNUAL % CHANGE						
March quarter	2008	2009	2010	2011	2012	2013
All sector salary & wage rates	3.4	3.3	1.5	1.6	2.4	2.6
Avg ordinary hourly earnings	4.5	5.3	2.2	1.2	2.0	3.4
Total weekly earnings	4.0	5.0	2.5	1.8	2.6	3.0
Statistics NZ				BERL Forecasts		

GOVERNMENT ACCOUNTS compiled by Adrian Slack

The Government Accounts for both September and October came as somewhat of a surprise to many. The Core Crown OBEGAL for the four months to October 2010, was a deficit of \$4.4bn. This was over \$1.95 bn worse than forecast, and \$1bn of this increase accrued between September and October.

Core Crown expenditure was \$440m (2%) lower than forecast. But actual Core Crown revenue was substantially at odds with the forecasts, down \$1.1bn (5.5%) on Treasury's forecast.

A large proportion of the under-forecast in September was due to a below forecast GST take (-15.8%), but as expected this was not as bad in October (-4.2%). We suggest that some of the gap in September was due to late GST filings or payment. The pre-GST spend-up, however, remained below Treasury's forecast.

Corporate tax revenue continues to drop below forecast (over -\$780m, or around 28%, below forecast in October). This is consistent with a slower than expected, and somewhat insipid, recovery.

Nonetheless, the government's tax revenue for the four months to October 2010 was almost 9% higher than the same period last year, although still well below the 2008 levels (-12.4% on the four

months to October 2008). This is consistent with a modest recovery.

One of the Minister of Finance's reasons for the net tax cuts was to soften the impact of the recession. But these results suggest that the payoff to running up the government's deficit to finance the cuts were perhaps less than expected. Clearly, the long-term incentive effects for work, saving and investment will take time to become apparent. When they accrue we hope they, at least, meet Treasury's expectations.

The corporate tax result is concerning given the saving-investment dynamic is critical to Treasury's forecast for the recovery. This dynamic is underpinned by increased saving on the part of households and a recovery in business investment. However, real business investment has only just gone positive in the June quarter after seven quarters of contraction. But perhaps reflecting the budding recovery in the labour market, Core Crown social security and welfare spending was \$37m below forecast.

While Treasury's forecasts allowed for the net impact of the recent GST income tax changes, the allowance was an understatement. So there may continue to be some undershooting in the short term. While the government has capped core government expenditure growth, it may not be able

GOVERNMENT NET REVENUE AND EXPENDITURE \$M						
Fiscal year ended June	2008	2009	2010	2011	2012	2013
Direct taxation	40,710	38,270	33,895	33,050	34,590	36,890
Indirect taxation	16,040	16,410	16,850	19,165	20,430	21,250
Miscellaneous	5,070	4,800	5,470	6,150	6,160	6,625
Total Revenue	61,820	59,480	56,215	58,365	61,180	64,765
as a % of GDP	33.9	32.3	29.7	29.6	29.9	30.3
Social security	17,875	19,380	21,185	22,245	23,175	23,980
Health and education	20,850	23,825	24,850	26,035	25,940	25,930
General expenditure	15,810	18,370	15,665	19,265	18,740	20,195
Debt servicing	2,460	2,460	2,310	3,230	3,835	4,325
Total Expenditure	56,995	64,035	64,010	70,775	71,690	74,430
as a % of GDP	31.3	34.7	33.8	35.8	35.0	34.9
OBEGAL	4,825	-4,555	-7,795	-12,410	-10,510	-9,665
OBEGAL as a % of GDP	2.6	-2.5	-4.1	-6.3	-5.1	-4.5
Pre-funding of NZS	2,105	2,245	250	0	0	0
OBEGAL after pre-funding	2,720	-6,800	-8,045	-12,410	-10,510	-9,665
Memo: Operating balance	3,890	-5,895	-7,000	-11,105	-9,170	-8,285
<i>Statistics NZ</i>						<i>BERL Forecasts</i>

to avoid increasing finance costs if global credit rating agencies and financiers react negatively to on-going global uncertainty and New Zealand's rising indebtedness. We hope the government's fiscal strategy and growth agenda delivers the required incentives. And, further, we hope that Kiwis make the necessary changes in behaviour rather than being forced to keep their hands out of their wallets by foreign financiers cutting the lines of credit.

We have not explicitly allowed for an increase in the Crown's financing costs if New Zealand's general credit rating or sovereign debt rating is downgraded. However, we believe this represents a substantial negative risk. If this comes about, it will delay the turnaround in the OBEGAL and stretch out the time horizon over which the government's accounts will return to surplus.

We forecast that the OBEGAL will remain in deficit out to our forecast horizon of 2014. We expect the OBEGAL to reach its worst at around \$12.4bn in 2011. This is worse than Treasury's forecast, as we are more pessimistic about the recovery in GDP and the tax revenue returned to the government. However, we see 2011 as the turning point for the government's deficit. We forecast that the OBEGAL will stay in deficit, but will continue to reduce, reaching \$8.9bn in 2014.

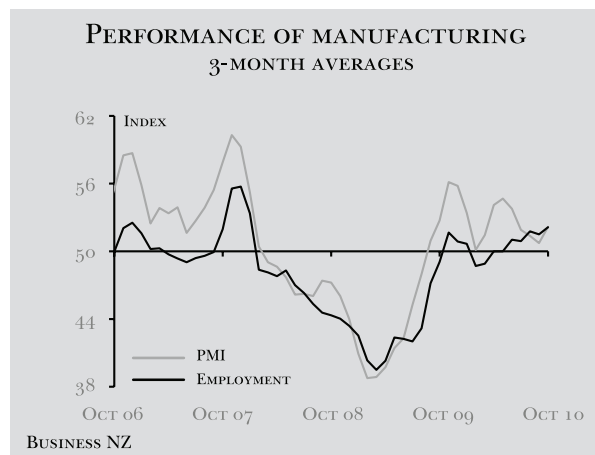
MANUFACTURING compiled by Fiona Stokes

SURVEYS INDICATE MANUFACTURING ACTIVITY REMAINS FLAT

Manufacturing activity remains flat, with the surveys we monitor indicating little or no change over the latest quarter. The three-monthly average of the BNZ – Business NZ Performance of Manufacturing Index (PMI) sat at 53.4 in November 2010, with the index for production at 50.8, employment at 52.9 and new orders at 55.0. Anything less than 50 indicates contraction.

In the regions, unadjusted results showed some small changes in activity levels month-on-month. The Northern (56.3), Central (54), and Otago (53.7) regions all recorded positive results, indicating an expansion in manufacturing. Three-monthly average of the PMI in the regions compared year-on-year was also generally positive – with the exception of a small Canterbury blip.

In terms of comments from manufacturers, these remain predominantly unchanged. Manufacturers remain concerned about market conditions, particularly slow demand and customer caution. Positively, some manufacturers are feeling the effects of continued growth in the Australian economy.



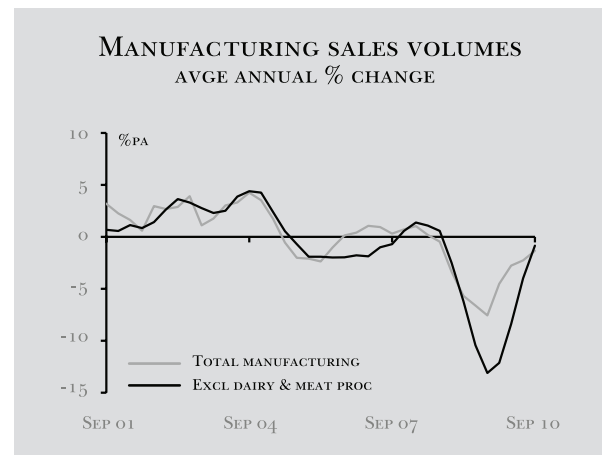
The New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during October 2010 showed total sales in September 2010 increased by 23%. Within this increase, export sales increased by 16% on September 2009 and domestic sales were up 28%. The current performance index (profitability and cash flow) sat at 99.5 in September 2010, while the change index (capacity utilisation, staff levels, orders and inventories) sat at 103.5. Anything less than 100 indicates contraction.

Net confidence among the manufacturers surveyed dropped to -11, from +40 in the previous month. Within this surveyed group of manufacturers markets remain a constraint, but some employers are concerned that skill shortages could rear their ugly head again shortly in areas like trades and technicians.

The sentiments being expressed in these confidence surveys are also being mirrored in the Statistics New

Zealand Economic Survey of Manufacturing for the September 2010 quarter. Looking at the percentage change on a year earlier, total manufacturing sales volumes fell 1.3% in September 2010. However, excluding dairy and meat product sales volumes, this drop was only 0.8%. Dairy and meat manufacturing sales volumes are not in a good space, and neither is other food (particularly wine).

In the September quarter, dairy and meat sales volumes were down 10% while, for the September year, volumes were down 2.5%. In contrast, transport equipment manufacturing was up 13% this quarter, and sales volumes were up almost 6% in the latest year. Wood product manufacturing was also showing positive sales volumes this quarter, up 3%, and just over 8% in the latest year. As mentioned in our forestry section, strong demand from



China is continuing to have a positive impact on our log exports; and this is also flowing through into wood product manufacturing. Demand from Australia for our wood products also continues to be positive.

EMPLOYMENT ALSO RELATIVELY STABLE

From the point of view of employment, the latest Household Labour Force Survey provides some indication that employment in manufacturing has grown, just.

Between September 2009 and September 2010, full-time employment changes at a sector level indicate that there has been a strong recovery in employment in wood product manufacturing (from 15,800 to 19,100); food product manufacturing had a slight increase in employment (from 64,700 to 67,300), along with transport equipment manufacturing and fabricated metal product manufacturing. Employment in beverage and tobacco product manufacturing remained stable, while there was a slight decline in employment in the textile, leather, clothing and footwear manufacturing sector. Full-time employment in pulp, paper and converted paper product manufacturing declined from 5,500 to 5,100, while machinery and equipment manufacturing has seen a large drop in full-time employment, from 32,700 to 23,700. In the rubber and non-metallic product manufacturing sectors job losses went from 11,500 to 9,100 and 8,200 to 6,600 respectively.

BUILDING AND CONSTRUCTION compiled by Fiona Stokes

NEW HOUSE CONSENTS REMAIN BELOW REPLACEMENT LEVELS

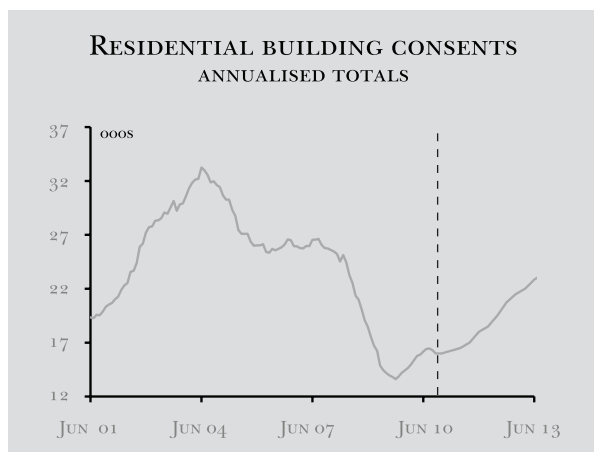
Monthly figures indicate 1,123 new dwelling units were authorised in October 2010. This is a small decrease from the 1,262 dwelling units authorised in September 2010, and a decline from the 1,424 in October 2009.

As noted in earlier editions, consents during 2009 were at very low levels, while consents are well up on year-earlier levels, the actual numbers are very sobering. This point is reinforced when we look at totals, where the annual total to October was 15,991. This is well up on the annual total to October 2009, which was 13,867, but substantially down on the 20,089 in October 2008 and the 25,777 in October 2007.

The annual total of residential building consents has also been hampered by the steady decline in the number of consents issued for apartment buildings. In the month of October 2010, only 24 consents were issued for apartments compared with 103 consents being issued in October 2009. In the 12 months from October 2009 to October 2010, only 866 consents were issued for apartments.

At a regional level, in the three months to October 2010, the number of new building consents issued was down in the Otago, Canterbury, Marlborough, Taranaki, Manawatu-Wanganui, Waikato, Northland, the Bay of Plenty and Auckland regions (phew). However, when we look at consent numbers over the 12 month period to October 2010, that picture changes quite markedly and the number of new building consents issued were only down in the Marlborough and Southland regions.

In our previous forecast, we indicated a return to an annual rate of 20,000 consents by the end of 2011 and a further rising to 22,000 consents by the end of 2012. Given current migration and labour market figures, along with subdued household consumption, we consider this forecast to still be accurate.



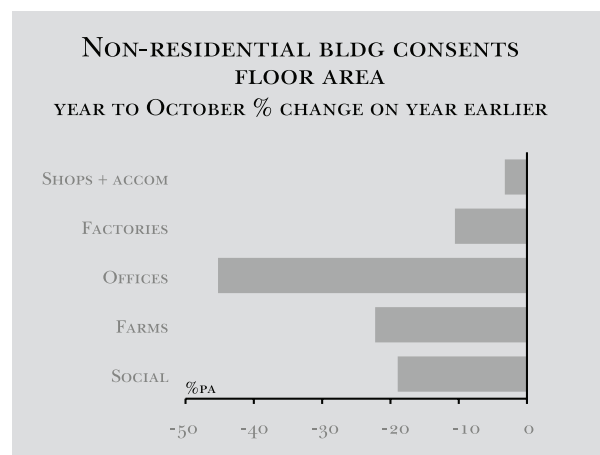
NON-RESIDENTIAL SECTOR REMAINS SUBDUED

Monthly figures indicate 1,097 new non-residential dwelling units were authorised in October. In the three months to October, the number of consents for factories, shops and accommodation grew, while the number of consents issued for farms, offices and 'social' buildings declined. This trend is also mirrored in annual figures, with the number of consents for factories, shops and accommodation growing in the 12 months to October.

Comparing the three months to October 2010 with the same period in 2009 indicates that the value of non-residential building consents was down almost 4%, while year-on-year figures indicate the value of non-residential building consents were down 17% (\$57m). As a comparator, the value of residential building consents fell 14% year-on-year (\$14m).

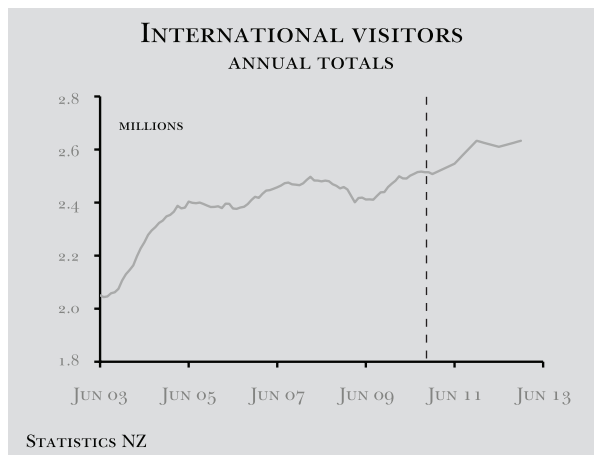
Leading the decline over the last 12 months has been a decrease in the value of buildings in the accommodation sector, in particular hostels and hotels. While the number of consents for buildings in the accommodation sector has grown during this period, the value of this building work has decreased.

Within the sectors, the largest increase (in floor area terms) in the three months to October was in the shops and accommodation and factories categories. However, in the 12 months to October, all sectors have seen a decline in floor area totals. Floor area totals for the consents issued in the last 12 months compared with a year ago, were down almost 18%.



TOURISM compiled by Nathaniel Robson

The announcement by low-cost carrier AirAsia X of new direct flights between Christchurch and Kuala Lumpur is good news, especially for tourism operators in the South Island. The official word is that the increased capacity has the potential to generate 70,000 more visitors per year. This translates to almost full-occupancy of each of the carrier's Airbus A330-300s arriving four times per week. We look with optimism to the response of the other players in the market for international flights. With premium seats on low-cost carriers being of similar price to economy seats on full-service carriers, competitive pressures may drive down the economy fares of the other airlines that provide tourists to New Zealand. That the new flights begin arriving in April 2011 also presents opportunities surrounding the ski season and the Rugby World Cup.



Unfortunately, there are some risks associated with this market entry. The first is that for every additional plane arriving from Kuala Lumpur, there is one leaving. To the extent that the arriving planes have unoccupied seats, there is capacity for domestic residents to fly out together with the returning tourists. This may particularly become an issue in the high season of 2011 if Kiwis find it only marginally more expensive to holiday in South East Asia than domestically.

The other risk is that the NZ\$ may remain high and the other market conditions the tourism sector currently faces could continue throughout 2011. This threatens not only the success of AirAsia X's entry, but also the medium-term health of the national tourism industry.

Data on short-term visitor arrivals and expenditure, and purchases of guest nights in commercial accommodation indicate that the tourism sector remains in a depressed state this quarter. While there has been a rebound in holiday visitors from Asia, growth of the Australian segment has slowed and a significant portion of the growth in overall

visitor arrivals is coming from non-tourism sources. In the year to October 2010, the number of business, education and conference visitors was respectively 8.6%, 4.1%, and 13.3% higher than in the previous 12 months. Together these comprise just over 20% of our annual inflow of 2.51m visitors. In comparison, holiday visitor numbers (48% of all visitors) grew only 2.7% and Visiting Friends and Relatives (VFR – 31% of total) grew only 1.2%. The year-on-year growth in Australian holiday visitor numbers has slowed from 14.8% in July to 5.0% in October 2010. At the same time, the fall-off in visitors from the UK and USA has slightly worsened. It is pleasing to see our three main Asian source markets return to double digit growth of visitors. This does, however, belie a deeper issue of concern to the sector – decreasing average expenditure per tourist.

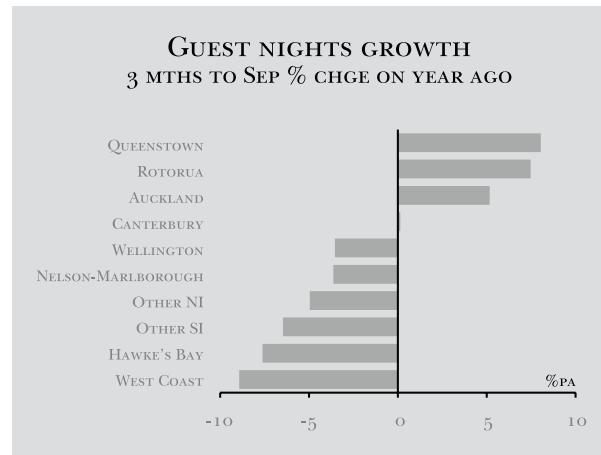
Source country	% change (year to October 2010)		
	Total	Holiday	VFR
Australia	5.1	5.0	2.5
UK	-6.6	-11.8	-1.6
USA	-3.0	-7.2	1.9
China	10.9	11.5	15.7
Japan	11.3	10.8	-0.3
Germany	2.3	0.7	4.6
Korea	23.0	40.1	-2.1
Canada	-0.9	-3.1	4.8
TOTAL	3.1	2.7	1.2

As of September 2010, average expenditure per holiday and VFR tourist (compared year-on-year) was down 10% and 17% respectively. The pattern held for all our top five sources (Australia, UK, USA, China, Japan) except for holiday tourists from China, who increased average spending by 11%. This helped little, since Chinese holiday tourists spend on average about \$600 less than UK and Japanese tourists, who in contrast decreased their spending by 6% and 20% respectively over the period. Overall, the average holiday and VFR visitor spend was down about \$300 in the year to September 2010 compared to the previous year. With arrivals of these visitors running at about 2.0 million per annum this implies an annual loss of \$600m in direct tourism expenditure.

Quarterly guest nights figures for September 2010 (percentage changes on the September 2009 quarter) indicate which types of accommodation

provider and regions have been hardest hit by the malaise affecting the sector. Hotels have been doing well (+6% overall), especially in Auckland (+12%), Rotorua (+15%) and Queenstown (+9%), no doubt thanks to the return of package tourists from Asia. Motels in these key tourist destinations have also seen higher demand for guest nights (Auckland +2%, Rotorua +5%, Queenstown +12%) but elsewhere demand has fallen to give a net figure of -3% overall for motels. Backpackers (-4% overall) and holiday parks (-7% overall) almost everywhere have had a tough time. Destinations hit particularly hard (figures in brackets for backpackers, holiday parks) were Auckland (-10%, -21%), Queenstown (-16%, -49%), and the rest of the South Island combined but excluding Canterbury (-14%, -21%). Northland and Canterbury saw similar falls in demand for backpacker accommodation but offsetting increases in guest nights in holiday parks. Overall, the regions that saw an increase in guest nights in the September quarter over the same quarter last year were Auckland (+5%), Rotorua (+7.5%) and Queenstown (+8%). There was no change in Canterbury guest nights and the other regions saw falls that offset these gains to give an overall fall in guest nights of 0.4%.

The division of guest nights growth into domestic and international components reveals that international guest nights growth has been slightly positive on 0.6% but domestic guest nights demand is down 1.0%. Domestic residents' demand was the primary driver of growth in Auckland guest nights, while growth in Rotorua and Queenstown guest nights was mainly due to purchases by international visitors. Domestic and international demand elsewhere was flat or slightly negative. An exception is Canterbury, which saw 6% growth in domestic guest nights; but this was completely offset by a fall of 7% in international guest nights purchased.



Clearly the global recession and unfavourable exchange rates are taking their toll on our tourism sector. To some extent the observed decline in average spending per visitor is a composition effect. A larger share of all tourists are Australian, who typically spend less than those from the UK and USA, and Chinese, who typically spend less than Japanese tourists. Nevertheless, poor economic performance in many of our important source countries and the strong NZ\$ are the main culprits. Since recovery from the recession is only occurring slowly, the lacklustre performance of the tourism sector is likely to continue for some time. Favourable movements in exchange rates would provide tourism operators some relief, especially if they arrived to be capitalised on around the time of the Rugby World Cup.

RETAIL TRADE compiled by Adrian Slack

Statistics New Zealand data for the September picture show an unfamiliar pattern – deflation in the retail trade sector. Compared to the same periods a year ago, retail trade prices were lower on average in the June (-0.4%) and September (-0.6%) quarters. This reflects heavy and on-going discounting by retailers feeling the keen edge of the recession cutting in to consumers' wallets. This is likely to continue into the Christmas season, with retailers competing to attract business.

In terms of the volumes of trade, the seasonally adjusted indicator for the September quarter showed a rise of 0.9% in core sales, and a modest but strengthening pick up in the motor vehicle industries of 0.3%. The combined effect for the sector as a whole was a modest increase in sales of 0.7%.

However, although these are positive numbers, they mainly reflect that the industry is making up lost ground. Actual retail sales values in the year to September 2010 were 1.1% higher than in September 2009, but 1.0% lower than September 2008. It is even starker if we look at the value of retail sales, which were 2.7% lower than in September 2008. Thus although the sector is creeping upwards, it is still barely on the other side of the recessionary hollow.

There is some evidence of a rise in spending on consumer durables before the GST rise. Seasonally adjusted sales volumes in the Furniture and Floor Coverings industry were 5.8% higher than the previous quarter, Appliance Retailing up 4.2%, Household Equipment Repairs up 4.7% and Automotive Repairs up 6.7%. But the government accounts data on GST suggest that the pre-GST spend-up was not as large as expected.

Looking at seasonally-adjusted sales in the September quarter, there was an even split across the sector in terms of retail trade industries that experienced rises or falls. But the increase in sales (\$157m) for the growing industries was almost three times as large as those experiencing contractions (-\$56m) in the September quarter.

The underlying drivers of retail trade remain employment, house prices and tourism numbers, tempered by consumers' expectations. Despite some recovery, the first three all experienced quarterly declines to June 2010. On-going uncertainty about employment is likely to further dampen consumer confidence.

RETAIL SALES				
% CHANGE ON PREVIOUS YEAR				
Quarter	VOLUME		VALUES	
	Total	Excl motor vehicles	Total	Excl motor vehicles
Sep 09	-4.0	-0.9	-1.0	2.7
Dec 09	-2.9	-0.1	1.4	2.4
Mar 10	-0.8	1.3	3.0	1.3
Jun 10	1.6	1.3	2.7	0.9
Sep 10	3.7	2.3	3.0	1.3
Dec 10	3.6	2.7	2.8	1.7
Mar 11	3.0	2.5	2.4	2.4
Jun 11	2.5	2.0	2.4	3.0
Sep 11	2.0	2.0	2.6	3.1
Dec 11	1.5	2.0	2.9	3.1
Mar 12	1.6	2.1	3.2	3.2
Jun 12	1.8	2.3	3.5	3.1

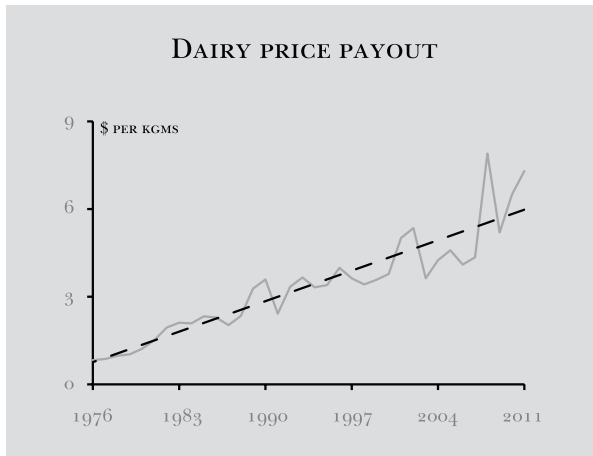
Statistics NZ BERL Forecasts

The anticipated recovery in employment and house prices through the end of the year will increase consumer confidence and provide a boost to retail sales. However, the weak tourism picture means that some sectors, such as accommodation and food retailing may also experience insipid growth or potentially declines, depending on the size of a domestic boost. Thus, we believe that a lack of confidence will dominate the near term, but that returning confidence over the medium term will also see a return of higher spending patterns.

The forecast is for real retail sales to continue to gain ground over the December quarter, mainly driven by price discounting. This will hold back the value of retail sales. We expect real retail sales to continue to pick up across 2011, with growth of 1.6% in the year to December 2011. We expect the growth rate will stabilise at this level in the year out to December 2012. Motor vehicle sales are likely to be slightly higher as consumer and business confidence returns over the next two years. We forecast 2.1% growth in both years to December 2011 and December 2012.

AGRICULTURE compiled by Kelly Dustow

DAIRY

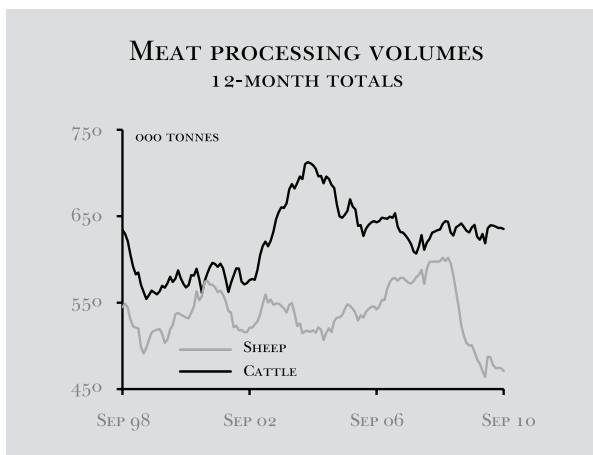


Despite the NZ\$ soaring high against the US\$, dairy export revenues have risen 16.4% for the October 2010 year. Export revenues are doing well due to the growing world shortage in milk supply, driven from developing countries such as China and India.

Export volumes are also showing positive signs, with export volumes for the October year up 4.6% creeping up from its slight decline over the last two years. Increased export volumes were quite possibly pushed by the growth in dairy cow herds, with cows reaching 4.4m and overtaking New Zealand's human population of 4.34m.

This positive outlook for dairy is expected to continue, with Fonterra announcing payouts of around \$6.10/kg milk solids for 2011. However, drought fears for the Waikato, which has 25.5% of New Zealand's dairy herd, might slightly dampen this positive outlook.

MEAT AND WOOL



Beef and sheep are facing tough challenges in the export market, with meat export volumes down 1.5% and cattle and sheep slaughtering down by 0.3% and

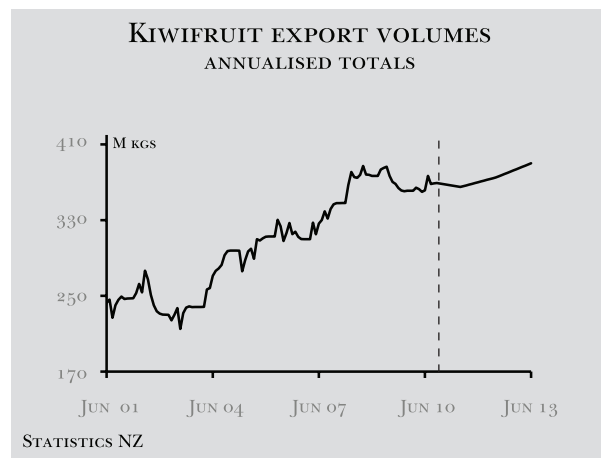
5.9% respectively for the year ending October 2010. The decrease in volumes exported and slaughtered are said to be due to farmers exiting beef and sheep operations because of low returns, drought and dairy expansion. Also, the high exchange rate does not leave much profit for beef and sheep farmers, with farm monitoring data from MAF estimating return on investment at a measly one percent. The industry needs to recover, although the recent declaration of an official drought in Northland, is not looking favourable stepping into 2011.

The Government has announced that it is negotiating a Free Trade Agreement with Russia. However, Russia is one of the smaller markets currently worth \$30m in beef and lamb exports.

Fortunately wool is proving strong, with export volumes up 7.9% for the October year 2010, and export receipts at 9.0% compared with October last year.

HORTICULTURE

KIWIFRUIT



Kiwifruit prices have taken a dive for the year end October 2010, decreasing 8.8%, with exporters increasing volumes by 2.2%.

The discovery of a bacterial infection, *Pseudomonas syringae* pv *actinidiae* (PSA) in November has shaken the \$1.5bn kiwifruit export industry. As export markets are expected to remain open for kiwifruit, the effects of this bacterial infection are likely to be felt by decreasing production. With the bacterial infection coming at the end of the kiwifruit season, any effects may not be felt until the 2011 year. Over the next year, prices and export volumes are expected to change roles, with kiwifruit prices increasing by 2% and export volumes essentially static.

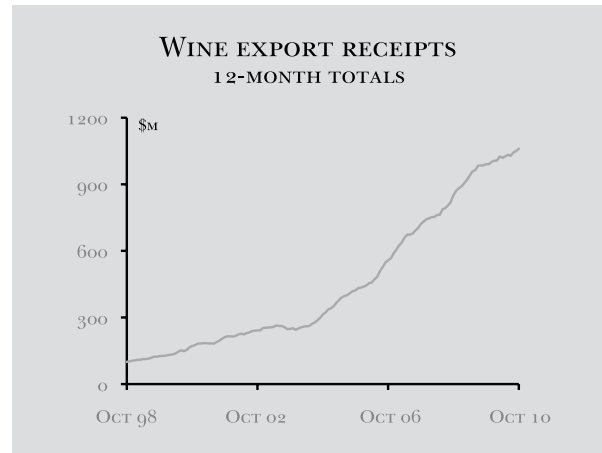
APPLES

The WTO has ruled in favour of New Zealand, stating that Australia's ban on New Zealand's apple imports is illegal. As plans for accessing Australia's market still need to be ironed out, it is expected that apples will be exported into Australia in 2012. Pipfruit New Zealand chairman, Ian Palmer, has estimated this market to be worth \$30m.

Performance over the last year has been gloomy, with export quantities down 14.3% and export prices down 5.8% for the October 2010 year. According to Situation and Outlook for New Zealand Agriculture and Forestry, this decline has been attributed to the cold spring weather in 2009, which reduced the amount of trees in the Hawke's Bay region and the biannual nature of some apple crops such as Braeburn. As re-planting's mature, it is expected that apple exports will improve up slightly at 3% and prices up 0.9% over the next year.

WINE

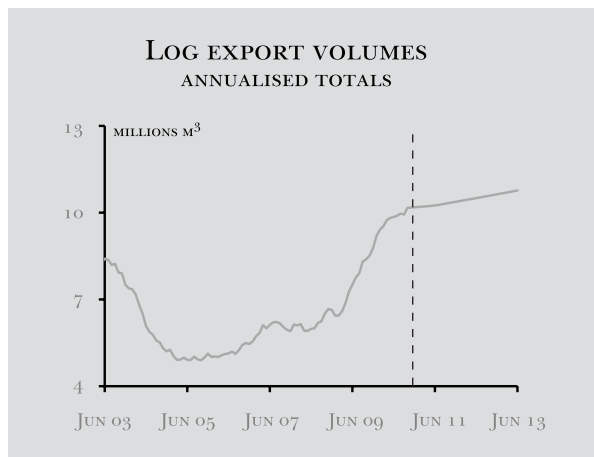
The oversupply of grapes, coupled with the worldwide recession, has seen the price of wine slashed and a significant number of wineries increasing debt and/or going into receivership over the past year. However, New Zealand is still maintaining its international premium with export receipts totalling \$1.2bn for the year ending October 2010, which is 7% up from last year's figure. With prospects that the wine industry will reduce its supply to maintain prices, this may help the wine industry maintain its premium in 2011.



FORESTRY compiled by Wilma Molano

Logs, wood and wood articles recorded the second largest increase in merchandise exports for the September month, up to \$60m (29%), on the year earlier. Chinese demand for logs from New Zealand continues to be very strong. Log and timber had the highest percentage change per annum in terms of per annum export revenue growth at 20.6% (year to September 2010).

LOGS



Log export volumes increased by 21.2% in the year to September 2010 but were down by 5.7% for the three months to September 2010, compared to the same quarter of last year. A similar picture is true for export values – with an increase of 26.1% for the year to September 2010 and a decrease on the average for the three months to September 2010 by 25.5%. While, the rate of growth of forestry exports is something to watch for, they remain in the exporters honour roll.

BERL expects log export volumes to remain positive in the near term. We expect log export volumes and receipts to grow further, especially to our regular customers – China and the United States.

TIMBER

Timber export volumes for the year to September 2010 were up by 7.1%, with the latest three months being 2.4% higher than year-earlier levels. Likewise, export revenues for the year to date were up almost 14% compared to September 2009 figures, a three-fold increase for the three months to September compared with the year earlier.

Given a slight positive improvement in the US economy, BERL forecasts for timber continue to be subdued but positive for export volumes and receipts.

PULP

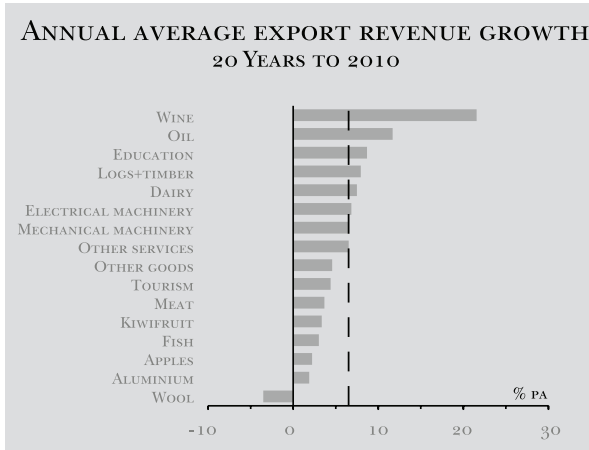
Export volumes for pulp for the year to September 2010 were 13.5% down on a year ago. This drop in volume is almost double the drop that occurred in September of last year -7.4%. Looking into the historical data on pulp, it was only the July 2010 figures on volumes and receipts that looked positive and promising. Other than that, the 'percentage change on previous year' has been almost all negative.

EXTERNAL SECTOR compiled by Amapola Generosa

Policy makers are looking to exports to boost growth, but latest trade figures suggest that the New Zealand economy is hoping against hope. The latest increase in export revenue has been buoyed by higher export prices and an overvalued NZ\$, not the volume of commodities traded overseas.

In the 12 months ending October 2010, export receipts were up 4.4%. The leading contributors to this rise in export revenue were logs and timber (up 26%), aluminium (up 24%), oil (up 17%), and dairy products (up 16%). Export revenue growth has primarily been driven by rising export commodity prices.

Over on the import side of the ledger, the value of imports is down 1.3% (\$543m), with capital and consumer imports dropping by 16% and 2% respectively in the 12 months to October 2010. On the other hand, there was a rise in the importation of crude oil (up 37.3%) and vehicle, parts and accessories (up 48.3%) - indicating a picking up of activity in the transport sector. Still, the latest import figures suggest restraint in household and business spending. Overall, the external sector recorded a surplus of about \$1.2bn, though there was still trade deficit in October 2010.



Looking at the details of New Zealand's export industries and the growth in export revenue, and two factors appear to be holding export revenue up. These are: a rise in export prices and a stronger NZ dollar against the US dollar. Higher export commodity prices are reflected in the merchandise trade surplus recorded in October this year.

For instance, dairy products sold overseas only grew by 4.6%, yet generated about 16% growth in export revenues compared to October a year earlier. Volatility in export prices can significantly affect trade revenues, and consequently New Zealand's prospects for an export-led recovery. Export volumes have to significantly increase in our top commodities to gain any real traction. However, the external sector's sustained growth performance is limited by its capacity to expand in the short-term. The volume of exports depends significantly on the sector's ability to meet overseas demand. Moreover, a range of risks to export volumes emerged over the month including drought, closure of the Pike River mine, and the impact on the kiwifruit crop of the bacterial infection. Further slowing down in the nation's major export destinations after Australia: China, UK, Japan and South Korea, could also materially affect New Zealand's trade and earnings, particularly if export prices fall.

With the New Zealand dollar being overvalued against the US dollar, an export led-recovery may be inhibited, and we need to then identify an export sector(s) that could be sustained in the long-run. One potential industry is export education. Over the last 20 years, the average export revenue in this sector has been growing faster than New Zealand's tradition export industries, meat, dairy and fruit. The industry annually contributes about \$2bn to our economy, almost one-third of the revenue generated by the tourism sector in the June 2010 year. Despite competition with other study destinations like Australia and the UK, the industry is also able to sustain a steady inflow of international students to New Zealand. This implies potentially larger economic returns to our economy. However, one sector alone cannot pole-vault the economy to a desired level of trade performance, lead alone to targeted economic growth. A sustained synergy of complementary forces will be required to strengthen the capacity, and thereafter performance, of the New Zealand export sector.

MERCHANDISE EXPORT RECEIPTS \$M						
Year ended June	2008	2009	2010	2011	2012	2013
Dairy	8,756	8,970	8,834	9,011	9,236	9,495
Meat	4,777	5,665	5,197	5,197	5,249	5,328
Wool	628	579	553	559	559	561
Fish	1,230	1,405	1,348	1,368	1,396	1,423
Horticulture	2,000	2,258	2,147	2,169	2,227	2,303
Alcohol	863	1,049	1,120	1,165	1,207	1,252
Forestry products	3,424	3,757	4,072	4,316	4,467	4,646
Aluminium	1,373	1,024	985	1,024	1,050	1,071
Machinery & transport eqpmt	2,920	2,823	2,559	2,687	2,795	2,912
Petroleum	2,633	2,148	2,279	2,439	2,512	2,587
Other	9,480	10,950	9,550	9,836	10,131	10,466
Exports of Goods (fob)	38,085	40,627	38,645	39,771	40,829	42,044
% change	15.2	6.7	-4.9	2.9	2.7	3.0
as a % of GDP	20.9	22.0	20.4	20.1	19.9	20.5
<i>Statistics NZ</i>						<i>BERL Forecasts</i>

MERCHANDISE IMPORT PAYMENTS \$M						
Year ended June	2008	2009	2010	2011	2012	2013
Food	3321	3801	3559	3666	3776	3927
Petrol & petroleum products	6674	6711	6159	6775	7046	7363
Non-electrical machinery	5580	5512	4580	4580	4717	4859
Electrical machinery	3634	4209	3381	3381	3499	3622
Transport equipment	6395	5271	4669	4949	5098	5276
Plastics	1497	1561	1450	1479	1516	1561
Textiles, clothing & footwear	2113	2314	2127	2191	2248	2326
Other	12710	14058	12023	12779	13585	14233
Imports of Goods (cif)	41924	43437	37948	39800	41485	43167
% change	8.4	3.6	-12.6	4.9	4.2	4.1
as a % of GDP	23.0	23.6	20.0	20.2	20.3	21.1
<i>Statistics NZ</i>						<i>BERL Forecasts</i>

BALANCE OF PAYMENTS ON CURRENT ACCOUNT \$M						
Year ended June	2008	2009	2010	2011	2012	2013
OT trade balance (fob-cif)	-3,839	-2,810	697	-28	-656	-1,123
BoP conceptual adjustments	1,893	3,175	2,467	2,400	2,400	2,400
BoP merchandise trade balance	-1,946	365	3,245	2,372	1,744	1,277
Services exports	12,986	12,789	12,247	12,572	12,987	13,311
Services imports	13,020	13,487	12,202	12,524	12,994	13,384
Services balance	-32	-698	45	49	-7	-73
Balance on goods and services	-1,978	-333	3,290	2,420	1,737	1,204
Investment income balance	-14,017	-10,974	-9,080	-9,118	-9,503	-9,885
Transfers balance	856	785	189	189	189	189
Current Account Balance	-15,140	-10,522	-5,600	-6,509	-7,577	-8,491
as a % of GDP	-8.3	-5.7	-3.0	-3.3	-3.7	-4.1
<i>Statistics NZ</i>						<i>BERL Forecasts</i>

THE STATE OF THE NZ ECONOMY December 2010

INDICATOR	PERIOD	LATEST DATA	UNIT	MEASURE	YEAR AGO COMPARISON	+ or - ?	
Employment	quarter	Sep 10	number (000s)	2,182	2,143	+	GENERAL SITUATION
growth			% chge on prev yr	1.8	-1.8	+	
LF participation rate	quarter	Sep 10	%	67.8	67.6	+	
Net permanent migration	3 month	Oct 10	number	5,119	7,730	-	
Business confidence	month	Nov 10	net % optimistic	33.2	43.4	-	
Own activity outlook	month	Nov 10	net % optimistic	35.3	33.7	+	
Government OBEGAL	FY to date	Oct 10	\$m	-4,400	-3,278	-	
Government net worth	spot	Oct 10	\$m	92,642	98,011	-	EXTERNAL SECTOR
Milk powder, butter & cheese	3 month	Oct 10	tonnes (000s)	464	472	-	
growth			% chge on prev yr	-1.5	36.8	-	
Meat	3 month	Oct 10	tonnes (000s)	105	116	-	
growth			% chge on prev yr	-9.6	-18.0	+	
Logs and timber	3 month	Oct 10	000s m ³	3,368	3,027	+	
growth			% chge on prev yr	11.3	26.3	-	
International visitors	3 month	Oct 10	number (000s)	527	521	+	
growth			% chge on prev yr	1.2	5.4	-	
Merchandise receipts	3 month	Oct 10	\$m	9,996	8,522	+	
growth			% chge on prev yr	17.3	-19.4	+	
Merchandise payments	3 month	Oct 10	\$m	11,185	10,302	-	
growth			% chge on prev yr	8.6	-24.6	-	
Current account	annual	Jun 10	% of GDP	-3.0	-5.7	+	
Balance of Payments							
Net international assets	spot	Jun 10	% of annual GDP	-86.4	-89.6	+	
Performance of manufacturing index (PMI)	3 month	Oct 10	average index	52.2	52.7	-	INVESTMENT & BUILDING ACTIVITY
PMI new orders	3 month	Oct 10	average index	52.6	55.5	-	
Imports of plant and Machinery	3 month	Oct 10	\$m	1,677	1,419	+	
growth			% chge on prev yr	18.1	-21.5	+	
Real business investment	quarter	Jun 10	1996 \$m	4,703	4,400	+	
growth			% chge on prev yr	6.9	-27.3	+	
Non-residential building consents	3 month	Oct 10	number	581.1	484.8	+	
growth			% chge on prev yr	19.9	-41.6	+	
House building consents	3 month	Oct 10	number	3,614	4,049	-	DOMESTIC ACTIVITY
growth			% chge on prev yr	-10.7	-2.1	-	
Retail sales (excl mv)	3 month	Oct 10	\$m	12,364	12,185	+	
growth			% chge on prev yr	1.5	4.3	-	
Motor vehicle new registrations	3 month	Nov 10	number	40,232	34,317	+	
growth			% chge on prev yr	17.2	-11.4	+	
Guest nights	3 month	Sep 10	number (000s)	6,425	6,448	-	
growth			% chge on prev yr	-0.4	2.1	-	
Electricity generation	3 month	Jun 10	GWH	10,831	10,796	+	
growth			% chge on prev yr	0.3	-0.1	+	
Ready-mix concrete	quarter	Sep 10	000s m ³	666	662	+	FINANCIAL & MONETARY CONDITIONS
growth			% chge on prev yr	0.7	-20.1	+	
Consumer price inflation	quarter	Sep 10	% chge on prev yr	1.5	1.7	+	
Producer inputs price inflation	quarter	Sep 10	% chge on prev yr	3.8	-5.8	-	
NZX50 share prices	month	Nov 10	average index	3306	3143	+	
House sales	3 month	Oct 10	median days on mkt	42.3	32.7	-	
Credit card balances outstanding	3 month	Oct 10	% of retail sales	100.8	100.0	-	
Exchange rate TWI	month	Nov 10	average index	68.9	65.2	+	
90 day interest rate	month	Nov 10	average %	3.17	2.80	-	
90 day interest rate margin with Australia	month	Nov 10	basis points difference	-174	-117	+	
SUMMARY		28 +		0 NEUTRAL		22 -	

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