



## ECONOMIC GROWTH – JUNE 2009 QUARTER

### New Zealand economy grows and shows signs of recovery...

Economic activity increased by 0.1% in the June 2009 quarter compared to market expectations of a 0.2% fall (*Figure 1*). This is the first quarterly increase following five quarters of contraction. On an annual average basis, real GDP decreased by 1.8%, the largest fall in the currently published GDP series which began in 1987 (*Figure 2*).

Fig 1: Quarterly Economic Growth

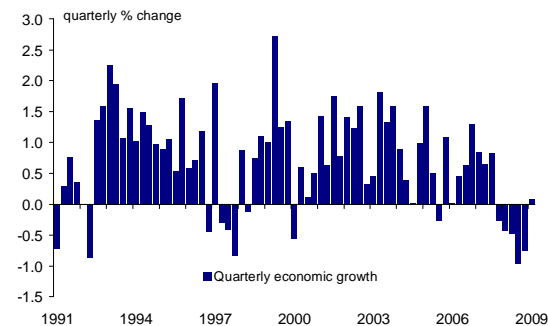
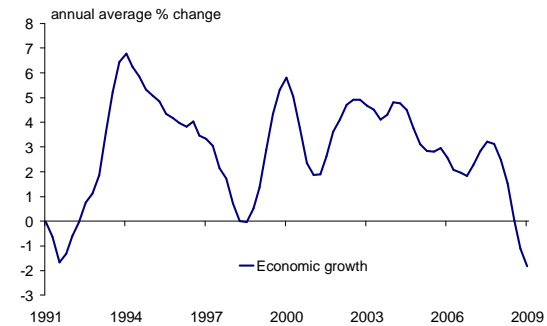


Fig 2: Annual Average Economic Growth



The positive quarterly result was driven by increases in electricity, gas & water supply activity (up 5.9%), communication services (up 1.7%), primary industry activity (up 1.5%) and real estate & business services (up 1.5%). There was an 8.0% increase in forestry & logging activity due to increased exports of logs to China while mining activity rose by 2.3% as the Maari oil field reached full production. Agriculture activity also increased, up 0.5% over the quarter. The rise in real estate & business services was largely due to increased house sales and a rise in hours worked in business services.

Household consumption expenditure increased for the first time since December 2007, rising by 0.4% over the quarter on the back of tax cuts and lower interest rates. A large positive contribution to output was also provided by net exports, due to a lift in dairy export volumes. Surprisingly, business investment increased by 1.3% over the quarter.

### ...but there continues to be areas of weakness

As in previous quarters, there were declines in manufacturing, construction and wholesale trade. Manufacturing activity decreased by 1.3% due to ongoing weak demand, and was down 13.9% over the year. Construction activity fell 1.9% while wholesale trade fell by 2.1%, the sixth consecutive quarterly decline for the industry. Transport & storage activity also fell over the June 2009 quarter, down 3.3%.

### The economy is stable but recovery will be subdued

Today's result confirms that economic activity has begun to stabilise. Leading indicators, such as consumer and business confidence, have continued to improve over recent months and point to further growth in the September 2009 quarter. However, any growth is expected to be weak and the economic recovery is likely to be subdued as unemployment continues to rise into 2010. The average expectation in the latest NZIER Consensus Forecasts is for the economy to grow by only 0.1% in the September 2009 quarter and economic activity is not expected to return to its pre-recession level until late-2010/early-2011. Looking further ahead, the average prediction in September's NZIER Consensus Forecasts is for the economy to grow by 2.7% in the year to March 2011. As a result of weak economic growth, the Department expects the unemployment rate to continue to rise in coming quarters, reaching a peak of around 7% in mid-2010.