

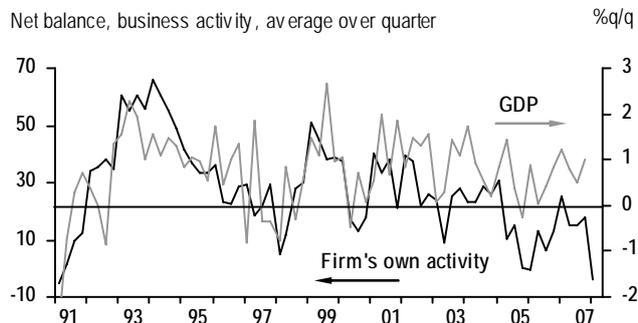
New Zealand economic update

NBNZ business confidence survey

The NBNZ business confidence survey plummeted in March, falling from a reading of -43.9 in February to -57.9. The headline index suggests that 57.9% of respondents expect business conditions to deteriorate over the coming year. Confidence weakened in all five major subgroups: retailing, manufacturing, agriculture, construction, and services.

More worrisome is that firms' own activity expectations declined further, falling from 2.4 to -6.4, adding support to a prospective stalling in economic momentum in the Kiwi economy. This was the first time negative reading since 2006, and only 12 negative readings in firms' own activity expectations have been recorded over the last 20 years. According to the NBNZ, of these negative readings five "were right at the start of the survey in 1988, as the 1987 crash washed through" and the "last time we saw firm's own activity expectations this weak was in 1991."

New Zealand: NBNZ business outlook survey and GDP growth



Looking at a breakdown of the sub-components of the index, the largest declines were recorded in residential and commercial construction, which fell to -46.2 and -30.0, respectively. This reflects the recent sharp deterioration in the Kiwi housing market. Employment, profit expectations and investment intentions also posted significant falls, and will likely fall further as business confidence continues to suffer under the still-elevated NZD, surging oil and food prices, a falling equity market, severe drought conditions, and growing concerns over the global growth outlook. The business cycle in New Zealand has turned, and points to significantly slower economic growth in 2008.

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