Economic Research
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New Zealand economic update

Q2 GDP

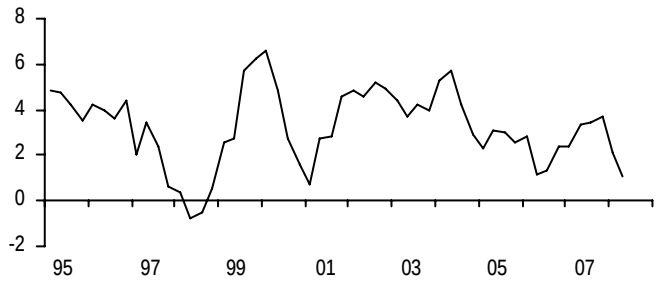
The Shaky Isles now officially are even shakier than before. While the more timely monthly economic data left little doubt that the economy was on its knees, today's GDP data for 2Q confirmed that New Zealand experienced a technical recession over the first half of 2008. GDP in the second quarter contracted 0.2%q/q (JPMorgan -0.3%, consensus -0.5%), after a 0.3%q/q contraction in 1Q. This is the sharpest rate of contraction since Q4 2005. As expected, the interest rate-sensitive sectors suffered most, with consumer spending and home construction falling in the quarter. We expect another small contraction in GDP in Q3, and a stagnant Q4. 2008, therefore, will be a lost economic year for New Zealand, with GDP growth close to zero.

The expenditure-based GDP data was even weaker than the headline production-based decline. Expenditure-based GDP dropped 0.5%q/q (after a 0.6% drop in Q1). An important contributor to the weakness in the June quarter was consumer spending, which sank 0.2% across the quarter. Home construction plunged 8.2%q/q. Business investment, though, surprised with a 6.1% expansion, and government spending, as expected, rose 0.5%q/q. Exports fell 0.2% (the second straight contraction, albeit a big improvement from the plunge in Q1), and imports bounced 3.3%q/q. Expenditure-based GDP growth over the year sank to -0.3%oya, from a revised 1.0% in the year to Q1.

On the production side of the accounts, the biggest fall was in construction, which dropped 3.8%q/q. Output from the retail and accommodation sector dropped 1.9%q/q, electricity and gas output fell 1.6%, and wholesale trade fell 1.2%. Farm output fell 0.6%q/q. The biggest rise in output in the June quarter was in manufacturing (up 1.4%q/q), followed by transport (up 1.2%) and government "output". Production-based GDP rose 1.0%oya.

New Zealand: GDP growth

% oya



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The RBNZ cut the official cash rate an unexpectedly assertive 50bp earlier this month. While another rate cut on 23 October is a certainty, the onset of financial market instability and accumulating downside risks to global economic growth mean the RBNZ now probably will ease by another 50bp (previously, we expected a 25bp rate cut). Indeed, since the RBNZ's 50bp cut on September 11, the global economic outlook has become significantly darker, and conditions in financial markets have substantially worsened. Only if economic and financial conditions had improved would the RBNZ be inclined to slow the pace of monetary easing. We expect a further rate cut in early December, and a cash rate of 6% by mid-2009.