BUSINESS NZ

# PLANNING FORECAST

DECEMBER 2009

BusinessNZ

## Growth still tentative

### Executive Summary

Increased evidence of growth is now emerging both domestically and internationally. Both official and unofficial data point to improved conditions although there is still a lot of water to go under the bridge to be certain the current recovery is not simply a blip.

Despite strong rises in both business and consumer confidence off a relatively low base, business perceptions and reality are still reasonably far apart. Unofficial reports from sector groups show, in general, conditions still relatively tough, although many are showing tentative signs of expansion after being in lock-down phase for the best part of 18 months. Employment and investment intentions are improving, but off a low base.

There are some very positive factors internationally which are improving returns to NZ exporters, e.g. higher commodity prices, which is good news for dairy exports in particular. However, returns are being blunted somewhat by a continued weakness in the US dollar.

The outlook for the labour market has continued to improve but in the short-term rising unemployment will act to constrain household consumption. On the other hand, healthy rises in net migration will boost the demand for goods and services while underpinning a revival of the housing market.

Despite a generally positive outlook, ongoing risks remain for the future health of the NZ economy. Living beyond our means, fuelled by a continuing high level of household debt, increasing government debt, an inability to rein in middle class welfare, potential blow-outs in non-tradeables' inflation via significant proposed rises in ACC levies and continued local authority rate rises are all issues which need to be addressed sooner rather than later. But none are politically easy, particularly in an MMP environment where constant trade-offs are the order of the day.

At the international level, moves by many governments towards insular policies and greater protectionism have been an unfortunate side effect of the recession over the past year, with implications for New Zealand and other countries heavily dependent on international trade for their livelihood. Moves by the EU to end export subsidies for dairy products in light of improved international prices are positive in this respect. However, more important to the long-term future of international trade is the removal of export subsidies as a policy tool full-stop.

*HIGHLIGHTS*

**Business New Zealand's Economic Conditions Index (ECI) shows the overall economy as largely in a neutral phase, no longer going backwards, but showing no great signs of strongly moving forward either.**

**Significant risks to the strength of the recovery exist, including a high level of household debt, rising government debt, and continuing weaknesses in the US economy with an associated exchange rate impact.**

**Inflationary pressures are no long of immediate concern in light of a weaker labour market and spare capacity. However, there is a risk to non-tradeables' inflation given actual and proposed increases in government and local government charges, including ACC levies.**

**The labour market is improving slowly with tentative improvements in job ads – albeit from a low base - while unemployment beneficiary numbers have plateaued with a slight reduction in numbers over recent weeks. Nevertheless, unemployment is likely to rise further and peak at around 7% in 2010 – much lower than the 8 percent plus many were forecasting a year ago.**

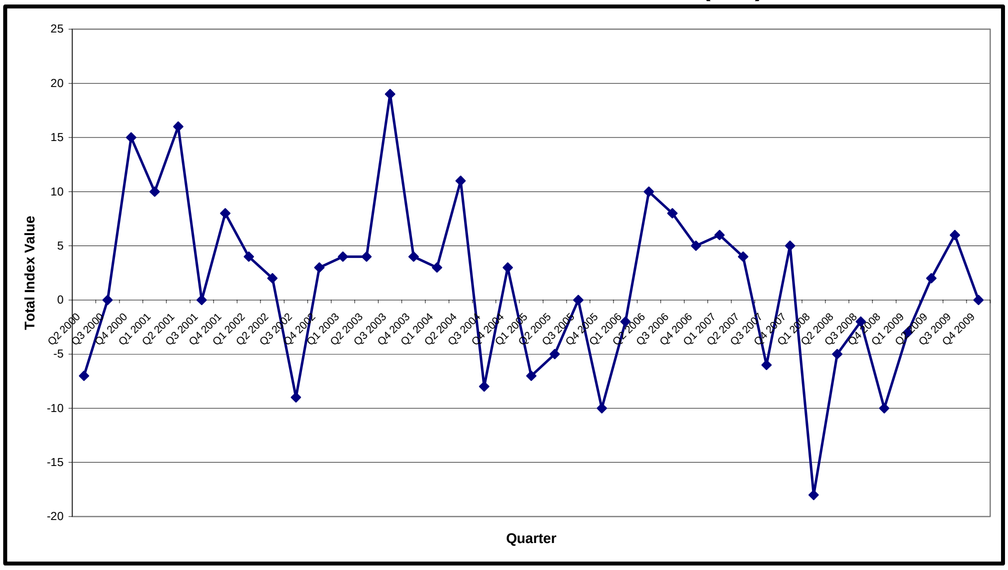
# Part 1: The NZ Economy – Where are we Now?

## Business NZ Economic Conditions Index (ECI)

**The overall Business NZ Economic Conditions Index (a measure of the major economic indicators) sat at 0 (neutral) for the December 2009 quarter, down 6 from the previous quarter but up 10 from the -10 recorded for the December 2008 quarter.[1]**

Continued improvements in both business and consumer confidence have been offset by a general weakness in labour market conditions, while monetary conditions have also dipped somewhat on the back of increasing long-term interest rates and ongoing concerns about the value of the NZ dollar relative to some of our trading partners, notably the US.

**Overall Economic Conditions Index (ECI)**




Data in the ECI is broken into four key sub-groups:

- Economic growth/performance indicators
- Monetary policy/pricing indicators
- Business/consumer confidence indicators
- Labour market indicators

**In terms of the ECI sub-groups:**

**Economic growth/performance indicators sit at -0**, the same as the last quarter but a significant improvement on the -6 as at December 2008. Fragile growth returned to the economy in the second quarter of 2009 with continued improvements in the current account balance on the back of stronger export volumes. However, growing business, household and government debt is still an ongoing issue.

[1] The ECI tracks 33 indicators on a quarterly basis. The overall index value for any particular quarter represents the net balance of the 33 indicators (generally the number increasing minus the number decreasing) thus providing an overall measure of performance. In general, increases in an indicator are seen as positive (e.g. growth in GDP or employment) and declines as negative. However, this is not always the case. For example, declines in unemployment are seen as positive and increases negative.

**<u>Monetary policy/pricing indicators</u> sit at -3**, down 4 on the September quarter and down 5 on a year ago. In light of improving world demand, long-term interest rates are starting to increase while the exchange rate has continued to remain high on the back of a weak US dollar. Strong growth in world commodity prices has resulted in improving returns to some of New Zealand's key export industries e.g. dairy. Short-term inflationary pressures remain under firm control, although risks to the non-tradeables' sector remain.

**<u>Business/consumer confidence indicators</u> sit at 9,** the same as for the September 2009 quarter and an improvement of 12 on a year ago. Recent surveys show that both business and consumer confidence continue to be strong. However, business perceptions and official economic data appear slightly disconnected at present with caution warranted over unjustified optimism. While improvements in key business and consumer confidence indicators are welcome, results are still patchy with demand suppressed by rising unemployment and relatively flat wage growth. On the other hand, rising house prices may increase demand given New Zealanders' traditional desire to borrow (and spend) against any form of paper gains in the housing sector.

**<u>Labour market indicators</u> sit at -4,** the same as the previous quarter and down 4 on a year ago. Despite evidence of further labour shedding, a number of surveys indicate that business employment expectations are improving, with this evidenced by slight rises in the number of job ads over recent weeks. Notwithstanding the above, unemployment is projected to increase and peak at around 7% by mid-2010 – much lower then many projections a year ago.

# Part 2: The NZ Economy – Where are we going?

## 1.1. Economic growth (GDP) – growth improving slowly

Growth officially returned to the economy in the June quarter of 2009 (up 0.1%) and projections are for modest growth of around 3% for 2010 and 2011 as outlined below.

While the forecasts are positive, it needs to be remembered that the economy shrank throughout all of 2008 and effectively the first half of 2009. Therefore return to growth forecasts need to be understood in this light given that it will take significant growth into 2010 before the economy even reaches the stage it was at 2 years ago!

There are both positive and negative factors currently impacting on New Zealand's growth potential or which will impact on growth potential over the next few years.

First, on the positive side, improving world growth prospects are raising demand for commodities and New Zealand is well-placed to offer premium products to both our traditional markets as well as to the rapidly expanding "middle classes" in Asia. The improving incomes of developing nations are opening up new opportunities, allowing New Zealand to exploit its international reputation for quality products.

Fonterra has recently significantly raised its forecast milk payout for the 2009/2010 season by almost 20% to over $6.05 per kgMS. There appears to be greater confidence that this payout will be achieved and significant contracts have already been signed with major customers. The consequence will be around $100,000 extra income for the average dairy farmer, a sum with the potential to be used to reduce debt and/or to finance new investment and/or consumption. Given the potential volatility of international prices, and dairy farmers still mindful of the scale back in projections last year, a cautious approach to any new spending is likely.

The expansion of dairying over recent years has provided New Zealand with the opportunity to make the most of improving international commodity prices. This should assist in reining in New Zealand's still relatively high current account deficit.

The ANZ Commodity Price Index has recorded its eighth consecutive monthly rise, with a strong 4.6 percent rise in October. International dairy prices led the way with a significant 8.3 percent October rise, up 44 percent from the February 2009 low point. The cumulative lift in the commodity price index since February has been 24 percent, although a stronger NZ dollar has until recently negated the rise in international prices when converted back into NZ dollars. The recent plateauing of the NZ dollar against the US will boost the NZ dollar index in November, assuming that commodity prices remain at their higher level.

| | World Price Index | Monthly % Change | Annual % Change | NZ$ Index | Monthly % Change | Annual % Change |
|---|---|---|---|---|---|---|
| Oct 2004 | 151.8 | 0.5 | 18.9 | 119.1 | -2.8 | 5.5 |
| Oct 2005 | 151.5 | -0.6 | -0.2 | 115.3 | -0.9 | -3.2 |
| Oct 2006 | 154.7 | 0.3 | 2.1 | 126.1 | -0.9 | 9.4 |
| Oct 2007 | 213.1 | 1.8 | 37.8 | 153.2 | -3.8 | 21.5 |
| Oct 2008 | 189.4 | -7.6 | -11.1 | 165.3 | 0.4 | 7.9 |
| Oct 2009 | 186.4 | 4.6 | -1.6 | 133.4 | -0.4 | -19.3 |

*Source: ANZ Commodity Price Index NZ – 3 November 2009*

Second, given continued high levels of business and consumer confidence, eventually firms will need to invest and restock depleted inventories. Existing surveys show investment intentions improving but off a relatively low base. Perhaps one of the few advantages of the recession of the last 18 months or so has been that for some firms it has been an opportunity, forced or otherwise, to reevaluate where they are at, re-analyse their business and determine where the opportunities for investment are best going forward. In this respect the recession has enabled a re-allocation of investment from less productive activities to those where better returns are likely over the medium term.

Third, significant monetary and fiscal stimulus over the past couple of years has provided greater opportunities for business growth, although this largesse will have to be paid for down the track.

Fourth, greater consumer confidence is starting to be reflected in a return to greater consumption expenditure as evidenced by recent electronic card transactions and slow improvements in building activity and car registrations.

Fifth, the continued significant increase in net migration will not only boost demand for housing but also demand for goods and services in general.

Finally, New Zealanders' passion for housing and improved market sentiment in this sector will give households greater confidence to spend. New Zealanders' state of mind is, in general, closely related to the fortunes of the housing market and with potential paper gains over recent months, new investor confidence is returning to this market.

Despite all the positive indications for future growth, there are issues which will hold back potential growth. Some of these issues New Zealand can do little about and some are politically difficult to address. The issues are presented in no particular order as each is important in its own right.

First, how does the government cautiously but deliberately unwind the expansionary fiscal stimulus package put in place over the last few years without causing undue pressure on those benefiting from the package? This is all the more difficult to do given the political trade-offs required under New Zealand's MMP system of government.

Second, how does the Government deal with increased government borrowing to the tune of over $200 million a week while publicly stating that many areas of current significant expenditure (e.g. superannuation and age of entitlement, working for families, and selling/privatisation of state assets) will not be touched? The Finance Minister, Bill English, has already stated that the December Economic and Fiscal Update will continue to spill red ink and next years Budget will contain expenditure cuts. However, without dealing radically to the big expenditure tickets, progress in cutting expenditure may be slow with potential consequences for both future debt levels and tax policy.

Third, how to deal with the potential for inflationary expectations to be reignited on the back of pressures on the non-tradeables sector, (e.g. rises in ACC levies and local government rates) and upward pressure brought to bear on the housing sector driven by increased consumer confidence, rising net migration, and relatively low levels of building activity over the past 2-3 years (although of late building activity is starting to improve).

Fourth, rising interest rates will impact on the cost of credit for businesses, many who are still heavily in debt.

Finally, the recent decision by the Labour Party to state publicly that they will renege on their long commitment to the multiparty consensus on the Reserve Bank Act (without saying what would replaced it) has significant implications for the transparency of New Zealand's economic framework, painstakingly built up over the last 25 years by successive governments. While having no immediate impact, the potential exists for policy tinkering with the Reserve Bank Act, to undermine New Zealand's reputation for having strong and transparent fiscal and monetary policy frameworks – while the Government is currently working on improving regulatory quality through the proposed introduction of a Regulatory Responsibility Act.

**Forecasts: Real GDP % Growth**

| | Years Ending | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | -1.3 | 3.5 | 3.8 |
| Average | -1.4 | 2.6 | 3.4 |
| Lowest | -1.6 | 2.1 | 3.0 |

*Source: ANZ, ASB, BNZ, National, and Westpac*

## 1.2 Monetary Conditions – Next move tightening?

***Interest rates – starting to rise***

The Reserve Bank Governor kept the Official Cash Rate (OCR) at 2.5 percent at the latest review with his announcement emphasising that there are risks to the current recovery and a consequent need to keep rates at around current levels until the end of 2010. *"In contrast to market policy pricing, we see no urgency to begin withdrawing monetary policy stimulus, and we expect to keep the OCR at the current level until the second half of 2010."*

While the Reserve Bank Governor might wish for the OCR to remain at current levels until mid-2010, there are likely to be factors beyond his control, which may force his hand earlier than expected.

The cost of borrowing is increasing for two reasons. First the cost of international funds has increased in light of stronger demand and a built in risk factor. Second, the cost of funds sourced domestically, namely retail deposits, has been relatively high, simply in order to access funds. This means that the overall cost of borrowing will increase despite any efforts by the Reserve Bank to delay an inevitable rise in interest rates.

Perhaps unsurprisingly in light of the above, the 90 day bill rate is forecast to increase in 2010 and level out at around 6 percent by 2011.

**Forecasts: Interest Rates (90 day bills)**

| | As at end of | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 3.0 | 5.6 | 6.2 |
| Average | 2.9 | 4.7 | 6.0 |
| *Lowest* | *2.8* | *4.2* | *5.8* |

*Source: ANZ, ASB, BNZ, National, and Westpac*

***The New Zealand Dollar – plateaued?***

After strong upward pressure on the New Zealand dollar over the past year mainly due to the comparative weakness of the US dollar rather than the inherent strength of the NZ economy, the NZ dollar has taken a breather over the past few weeks although it is still relatively volatile on a daily basis. While the Reserve Bank Governor has expressed concern that a weakening US dollar is largely dictating the value of independent currencies, there is little that policy makers can do. Moreover, when one looks at the NZ dollar relative to other currencies, e.g. Australia, our respective currencies have been reasonably stable.

Currency volatility is an issue not just for New Zealand but for other major trading economies, suggesting that there is limited ability to reduce the impact of the problem domestically, given that it is likely to persist until the US economy improves or the US dollar ceases to be the major reserve currency.

Forecasts below show reasonable stability against Australia and particularly, the United States over the next year. However, forecast exchange rates for the NZ dollar relative to the US dollar differ significantly out to 2011. This may reflect the speed and timing of economic recovery in the US which, by most reports, is still patchy.

The Labour Party has stated that it is ending its commitment to the multi-party consensus on the Reserve Bank Act suggesting that current monetary policy is not working. Unfortunately, Labour's position has shed more heat than light on the issue given their lack of any specific recommendations of how or what they would change.

The best contribution that monetary policy can make to the economy is to ensure price stability is maintained. Any move towards requiring monetary policy to achieve multiple objectives such as economic growth or employment objectives would create significant policy uncertainty, requiring the Reserve Bank to target potentially conflicting objectives at the same time.

Clause 4(b) of the Policy Targets Agreement already requires the Reserve Bank in setting monetary policy to try and avoid unnecessary volatility in output, interest rates and the exchange rate – recognising volatility as detrimental to economic welfare with possible adverse impacts on economic growth.

| AUD (cents) | | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 0.81 | 0.83 | 0.84 |
| Average | 0.81 | 0.82 | 0.84 |
| Lowest | 0.80 | 0.78 | 0.83 |

| USD (cents) | | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 0.77 | 0.79 | 0.72 |
| Average | 0.75 | 0.75 | 0.68 |
| Lowest | 0.71 | 0.68 | 0.64 |

| TWI | | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 68.0 | 72.6 | 68.4 |
| Average | 66.8 | 68.3 | 65.5 |
| Lowest | 63.8 | 61.9 | 61.4 |

*Source: ANZ, ASB, BNZ, National, and Westpac*

***Inflation - no concern currently but watch out for potential pressures from the non-tradeables' sector***

The Consumers' Price Index (CPI) increased 1.7 percent from the September 2008 quarter to the September 2009 quarter – the lowest in 5 years.

The September quarter 2009 CPI rose 1.3 percent after a rise of 0.6 percent in the June quarter. Annual inflation is now well within the RBNZ's target band of 1 to 3 percent and forecasts below show this is likely to continue. However, when one digs a little deeper behind the figures, significant issues remain.

While many economic forecasters, including the Reserve Bank, are comfortable with where inflation is, we are slightly concerned about the non-tradeables' sector to say the least.

The tradeable component fell 0.1 percent for the year to the September 2009 quarter with the most significant downward pressure coming from petrol. If petrol prices had remained constant over the period, the tradeable component would have increased 2.3 percent. In other words, a rising NZ dollar has largely been responsible for taking any heat out of tradeables' inflation.

In contrast, the non-tradeables' component increased 3.0 percent with the most significant contribution coming from electricity and local authority rates. Perhaps of more concern is the fact that at 3.0 percent per annum, the non-tradeables' component was still the lowest it has been since the March 2002 quarter.

Building on the above, further potentially inflationary pressures are likely to be exposed over coming months.

First, while wage pressures have generally died away in light of increased unemployment, the threat of significant increases in ACC earner premiums is likely to fuel wage demands from employees seeking to maintain their real income levels. Rises in local government rates are another cost for which employees are likely to seek compensation.

Second, any significant fall in the value of the NZ dollar would have implications for imported inflation and flow on effects to the price of input goods e.g. fuel.

Third, increased net migration, will put added short pressure on a housing market already showing significant signs of recovery both in terms of prices and numbers of houses being sold. Given that building activity is only rising slowly and the general lag effect as new housing comes on stream, the potential exists for some upward pressure on prices.

**Forecasts: % Change in Inflation (CPI)**

| | Years Ending | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 2.5 | 2.5 | 2.8 |
| Average | 2.4 | 2.1 | 2.6 |
| Lowest | 2.3 | 1.6 | 2.1 |

*Source: ANZ, ASB, BNZ, National, and Westpac*

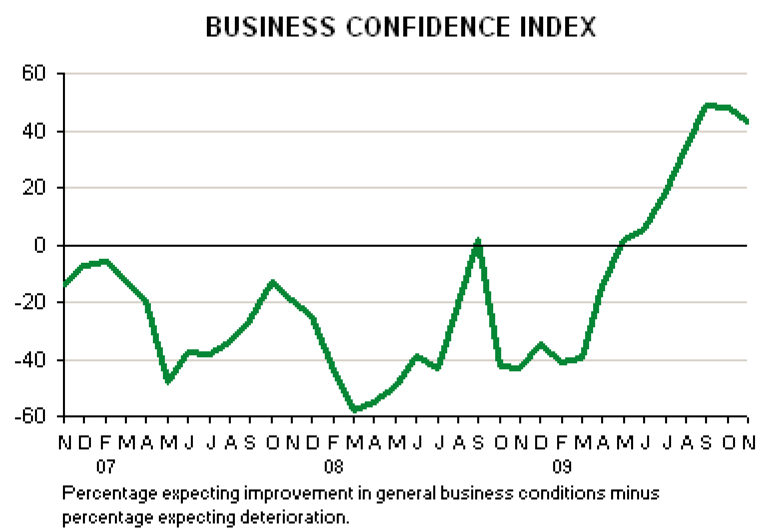
## 1.3 Business and Consumer Confidence – remains high

***Business confidence – high but yet to be translated into action***

Both business and consumer confidence continue to remain high.

The National Bank's Business Outlook (November 2009) showed that although business confidence slipped slightly in November 2009, down 5 percentage points on October, it is still very high by historical standards with a net 43 percent of respondents expecting better times ahead.

**National Bank Business Confidence Index**




Importantly, firms' own activity expectations continue to increase with a net 34 percent expecting better times ahead.

The sub-components of the survey also generally show an improving story – albeit off a relatively low base.

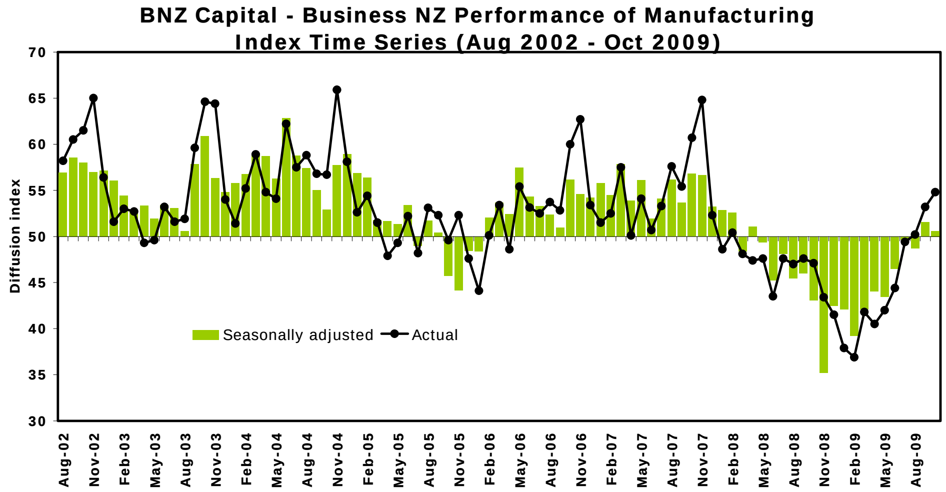
A net 5 percent of firms expect to hire staff over the coming year. A net 7 percent of firms plan to increase investment while a net 11 percent of firms expect improved profits over the coming year.

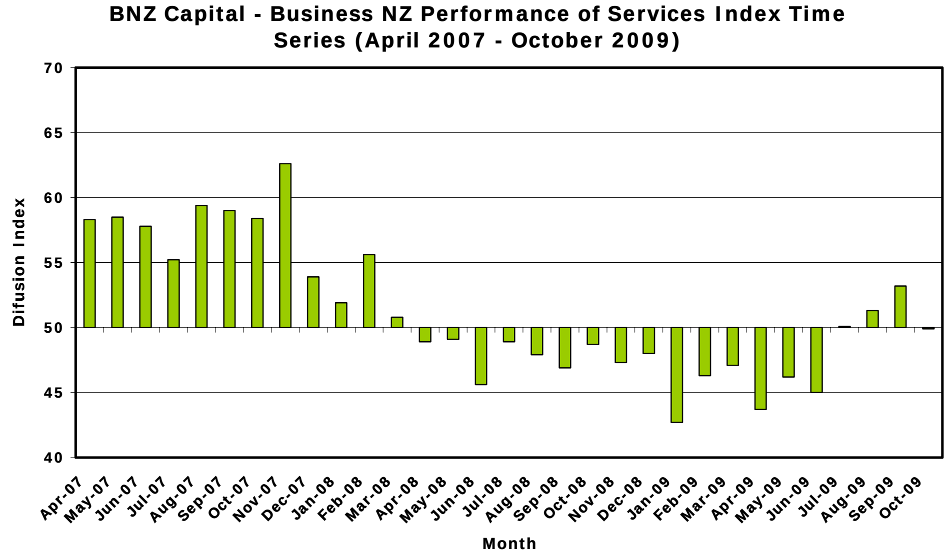
A net 73 percent of respondents expect interest rates to move upwards over the next year.

Exports intentions continue to improve despite concerns from some sectors in respect to the value of the NZ dollar.

While business confidence indicators have proved to be good leading indicators of future economic activity and growth there is a danger of business and to some extent, consumer confidence getting ahead of itself. While a high level of business confidence is to be welcomed, when one looks at the official data, the picture is still patchy.

The BNZ Capital – Business NZ Performance of Manufacturing (PMI) and Performance of Services (PSI) indexes show activity largely now in the black after being firmly in negative territory for most of 2008 and the first half of 2009. Nevertheless, results indicate steady improvement rather than any major expansion.




Potential issues facing businesses moving forward will be the rising cost of capital, potential cost increases as firms seek to recoup losses associated with heavy discounting over the past year, and fickle demand domestically, as households respond to low real income growth and rising unemployment.

### *Consumer confidence – full steam ahead*

Consumers are increasingly positive having been generally in negative territory for much of 2008 and the first quarter of 2009. Significant reductions in interest rates, reduced inflationary pressures and improved economic perceptions have more than offset any consumer pessimism generated by a rising unemployment outlook and associated low wage growth.

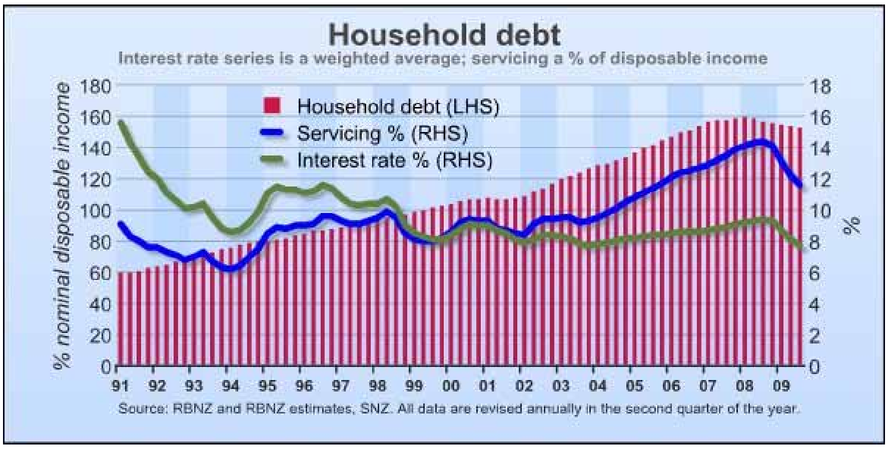
The Westpac McDermott Miller consumer confidence index leapt to 120.3 in the September quarter 2009 – up from 106.0 in the June quarter 2009 and the highest level it has been for four years.

Activity in a number of sectors e.g. housing, retail and data on electronic transactions has generally improved, which should further help to bolster consumer confidence.

But notwithstanding the consumer response referred to above, risk remains.

First, rising house prices are likely to be one of the catalysts for rising consumer confidence, which as many will now be aware, may not be justified in individual cases.

Second, household debt levels, while reduced slightly from the peak of 159 percent of disposable household income last year to 152 currently, will come under pressure as interest rates rise.  Interest rates are expected to rise throughout 2010 and further into 2011.



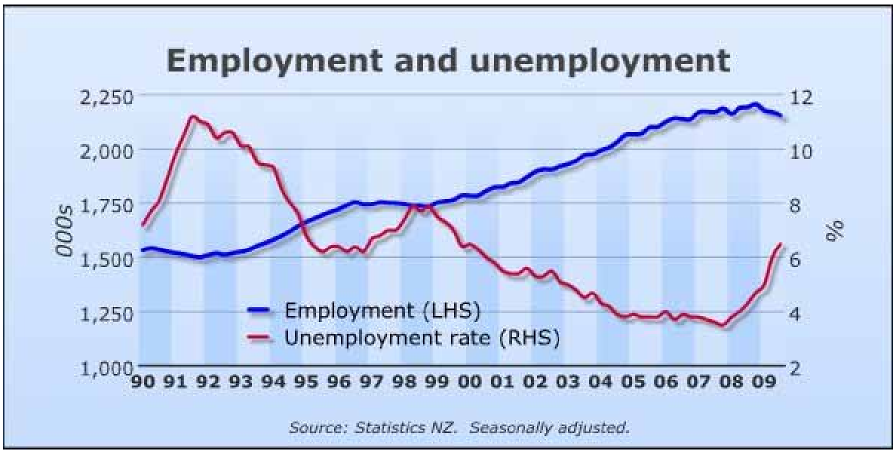

Third, prices in the non-tradeables' sector are expected to rise as mentioned earlier, putting households' disposable income under pressure.

Fourth, despite expectations for an improving labour market, short-term, unemployment is expected to rise.

## 1.4 Labour markets – Outlook improving

***Employment – stagnant with further rise in unemployment expected over short-term***

Forecasters are busily revising downward projections of unemployment after some rather dire predictions made a year ago.  From unemployment being forecast to rise to well over 8 percent, most forecasters now have it peaking at around 7 percent next year, slightly up on the official Statistics NZ's Household Labour Force Survey (HLFS) which showed unemployment at 6.5 percent for the September quarter 2009.




There are positives and negatives in both the official and unofficial data coming through. On the negative side, unemployment is still expected to increase in 2010 as forecasts below show, with a significant share of this burden continuing to be shouldered by the most vulnerable in the labour market – namely the young and unskilled who desperately need employment as a means of providing them with the skills and experience necessary to increase their productive capacity and hence their earnings' potential over time. Any barriers preventing the employment of such people e.g. rises in minimum wage rates, will inflame NZ's already high level of youth unemployment.

On the positive side, a number of business opinion surveys show that many employers have stopped shedding labour and indeed, in some cases, are starting to rehire.

The BNZ Capital – Business NZ PMI (October 2009) identifies employment activity, while still negative, as improving substantially from the very pessimistic levels of under 40 for February and March 2009. Other forward looking surveys such as the Westpac McDermott Miller Employment Confidence Index also indicate increased optimism in respect to future employment expectations. The Employment Expectations Index has jumped significantly over the last couple of quarters with the Index currently sitting at 122.1, the highest reading since December 2007, and not far away from the record high of 125.1. Improvements are also perceived in terms of job security.

The Department of Labour's Job Ad Series shows that both the number of Internet Job Ads and newspaper Job Ad numbers bottomed out in the June quarter of 2009 and have exhibited steady, but not spectacular, rises since June. However, these improvements need to be put in perspective in that current job ads are currently around 24,000 per month compared with a peak of well over 60,000 in mid-2007. Nevertheless, improvements in job ads will flow through to higher employment numbers over 2010.

Finally, unemployment beneficiary numbers have plateaued of late with a slight reduction in numbers over recent weeks. However, it is yet too early to suggest that the number of beneficiaries has peaked as figures can swing significantly from week to week, depending on a number of factors.

**Forecasts: Unemployment % (HLFS)**

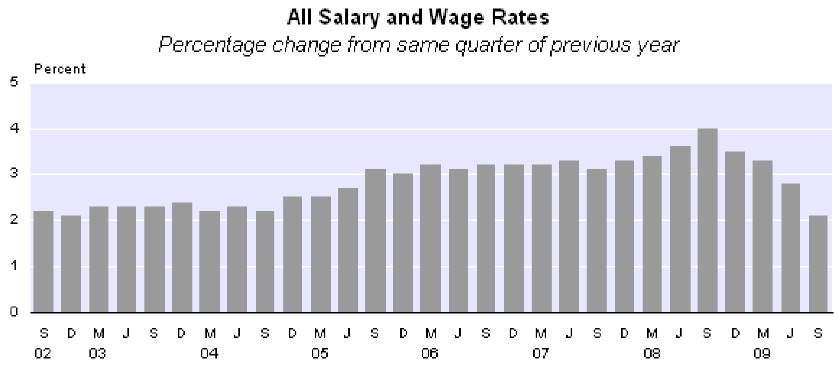
| | Quarter | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 7.0 | 7.4 | 6.9 |
| Average | 6.8 | 7.0 | 6.4 |
| Lowest | 6.6 | 6.3 | 5.5 |

*Source: ANZ, ASB, BNZ, National, and Westpac*

### *Labour costs – further signs of trending down*

As could be expected, wage and salary rises have trended down of late.

On an annual basis the LCI showed salary and wage rates (including overtime) peaking at a 4 percent annual rise for the September 2008 quarter (the largest since the series began in the December 1992 quarter). Since that time, wage and salary rates have continued to increase, but at a much lower rate. The latest official figures available show that salary and wage rates (including overtime) increased by 2.1 percent from the September 2008 quarter to the September 2009 quarter.




Given that unemployment is still projected to rise slightly and that some employment shedding is still taking place, there are likely to be restraints on wage demands as individuals and businesses adjust to tighter economic conditions. This includes those elements in the public sector that have tended of recent years to lead the drive for increased salaries. However, it is likely that employees will press for higher wage demands based on increased costs associated with the ACC earners' premium which could well take close to 0.5 percent off an employee's real disposable income. Employees are also likely to seek compensation for other increased charges such as higher local government rates.

Forecasts below indicate that total labour cost inflation is expected to moderate further over the coming year before increasing slightly in 2011, consistently with expectations of negative employment growth and rising unemployment for the first half of 2010.

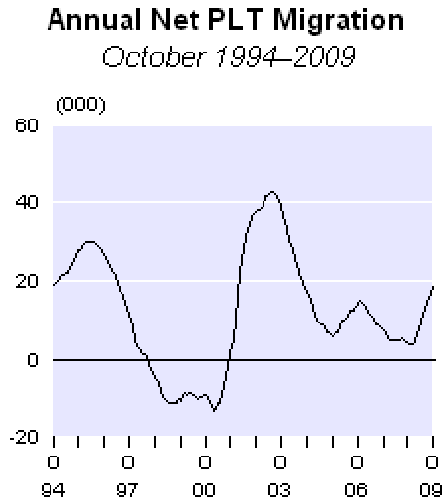
**Forecasts: Labour cost index percentage change (wages & salaries)**

| | Years ending | | |
|---|---|---|---|
| | Dec 09 | Dec 10 | Dec 11 |
| Highest | 1.8 | 2.0 | 2.3 |
| Average | 1.7 | 1.6 | 2.0 |
| Lowest | 1.4 | 1.2 | 1.6 |

*Source: ANZ, ASB, BNZ, National, and Westpac*

***Net migration gain – steady improvement driven by lower long-term departures***

Net migration gains have continued to improve on the back of generally slight improvements in inflows over recent months but mainly as a result of significant declines in outflows. Seasonally adjusted net migration was 18,600 in the year ended 2009, significantly higher than the annual average of 11,400 for the December years 1990 – 2008.



A large part of the net gain in migration was driven by lower numbers of permanent and long-term departures (PLT) to Australia. The net PLT outflow to Australia was 21,200 in the October 2009 year, compared with a net outflow of 34,600 in the October 2008 year.

Significant and continued upturns in net migration will boost the general demand for goods and services, while putting some upward pressure on the housing market.