BUSINESS NZ

PLANNING FORECAST

MARCH 2010

BusinessNZ

Economic prospects improving but risks remain

Executive Summary

Both international and domestic growth prospects have been revised upwards of late. The International Monetary Fund (IMF) is forecasting a growth rate of 3.9 percent for this year and over 4 percent for 2011. However, international recovery remains mixed.

Emerging markets, led by Asia, are showing continuing robust growth while the advanced Western economies in general remain sluggish and are still heavily dependent on government stimulus measures. The real test will be when Governments start to rein in expenditure and policy decisions aimed at propping up demand. The big question remains will private demand take over the void left once Governments revert back to more sustainable regulatory, tax and expenditure policies?

On a domestic level, recent official statistics have been very mixed with evidence of a recovery based on sluggish growth. While international commodity prices have generally improved, which is feeding through into improved returns, domestic consumption is still relatively stagnant as reflected in retail sales and electronic card transactions.

Household budgets are under pressure with expenditure being constrained through higher unemployment, modest wage growth and the prospects of higher debt servicing costs later this year.

Some sectors are starting to pick up e.g. building consents showing improvements of late (but off a low base), while the agricultural sector is showing much improved confidence as evidenced by the latest Federated Farmers mid season Farm Confidence Survey (January 2010).

Both the Manufacturing and Services Sectors are now in the black after being firmly in the red for the best part of 18 months through the second half of 2008 and most of 2009. This is evidenced by the results of the latest BNZ-Business NZ Performance of Manufacturing (PMI) and Services (PSI) Indexes. Perhaps more importantly, the key forward looking indicators such as production and new orders are now firmly in positive territory.

The Government faces difficult issues in the upcoming budget, particularly the challenge of providing meaningful personal income tax cuts while at the same time ensuring that tax reforms aimed at reducing current distortions do not create further distortions or result in debt levels getting out of control. Government has limited options in terms of expenditure control given that they have ruled out reform of big ticket items such as National Superannuation entitlements and other relatively large expenditure items such as interest free student loans.

HIGHLIGHTS

Business New Zealand's Economic Conditions Index (ECI) shows the overall economy is starting to improve, although the recovery has generally been sluggish to date.

Recent official statistics on the economy have been mixed but forward looking indicators continue to point to significant improvements. The question remains – when will current relatively high levels of business and consumer confidence be reflected in concrete increases in investment and expenditure?

Government faces considerable risks in trying to rein in expenditure while at the same time delivering meaningful personal income tax cuts, without significantly adding to our already burgeoning debt burden.

Household budgets are under pressure with expenditure being constrained through higher unemployment, modest wage growth and the prospects of higher debt servicing costs later this year.

On a more optimistic note, negative comments regarding recent official labour market outcomes have been overdone. When one digs a little deeper into the figures, combined with business employment intentions, the picture is much brighter.

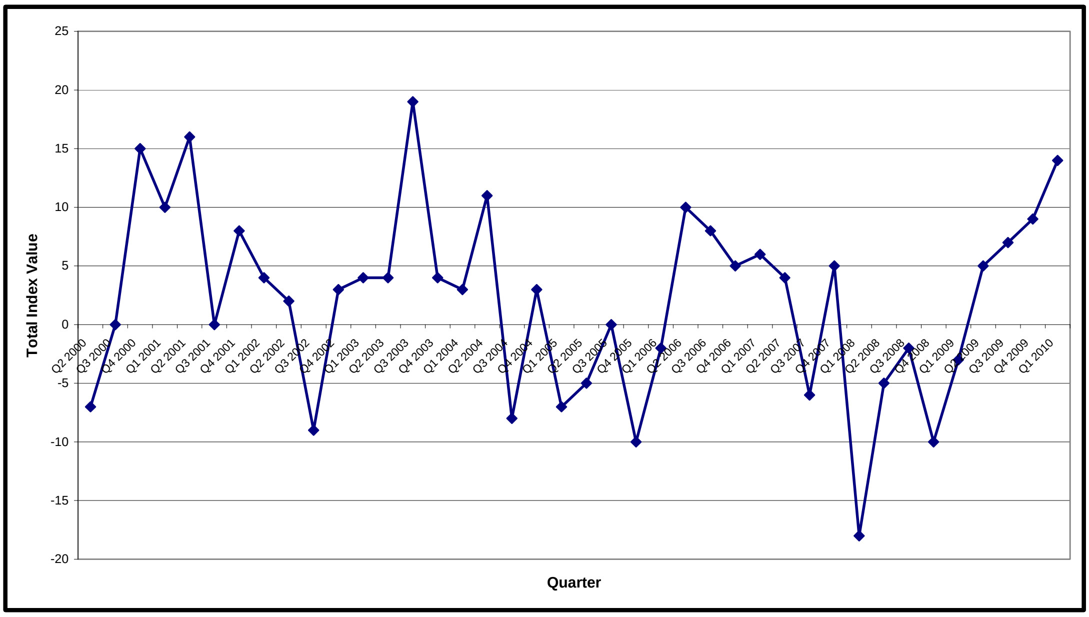
Part 1: The NZ Economy – Where are we Now?

Business NZ Economic Conditions Index (ECI)

The overall Business NZ Economic Conditions Index (a measure of the major economic indicators) sat at 14 for the March 2010 quarter, up 5 from the previous quarter and up 17 from the -3 recorded for the March 2009 quarter.[1]

Despite a relatively positive result for the March 2010 quarter, it must be remembered that the economy has only recently come out of recession so it is not unexpected that the index would show relatively strong growth as both businesses and consumers emerge from hibernation. Sustained business and consumer confidence combined with an improved labour market outlook have driven the ECI higher, while relatively sluggish economic growth (to date) prevented the index from moving even higher. A tightening in monetary policy conditions will likely act as a drag on the index over the next year.

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

[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 as negative.

In terms of the ECI sub-groups:

Economic growth/performance indicators sit at 2, the same as the last quarter but a significant improvement on the -3 as at March 2009. After significant negative growth in the latter part of 2008 and into 2009, tentative growth has returned from mid-2009. However, growth has not been particularly strong to date and is still patchy to say the least - certainly not the “spring-back” that many expected.

Monetary policy/pricing indicators sit at -1, down 4 on the December 2009 quarter and down 5 on a year ago. After significant falls in interest rates over the past couple of years, rises are in the air. While short-term inflationary pressures remain under control, there is a significant risk of the non-tradeables’ sector once again blowing out over the medium term. There remain some “built-up costs” which have yet to flow through to businesses and households e.g. ACC levy increases.

Business/consumer confidence indicators sit at 9, up 3 on the December 2009 quarter and an improvement of 8 on a year ago. Recent surveys show that both business and consumer confidence, although moderating slightly, are still strong. Perhaps the burning question which remains is when will continued high levels of confidence (and expectations) be reflected in firm action?

Labour market indicators sit at 4, up 6 on the last quarter and up 9 on a year ago. Despite official statistics for the December 2009 quarter showing continued labour shedding, a number of surveys indicate that business employment expectations are improving, with this evidenced by continued rises in job adds. The official Household Labour Force Survey (HLFS) survey results for the December 2009 quarter tended to paint a particularly gloomy, but perhaps unjustified, picture. More on this later.

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

1.1. Economic growth (GDP) – prospects improving

Growth officially returned to the economy in the June quarter of 2009 (up 0.2%) with the same result for the September quarter of 2009. Projections are for modest growth of slightly over 3% for the years ending January 2011 and 2012 as outlined below.

While growth prospects are clearly improving, there is still a balance of factors impacting positively and negatively on future growth prospects.

As a nation dependent on world trade, New Zealand is in a good position to take advantage of improving world growth prospects, particularly the development and growth in Asia and the expansion of demand from the "middle classes". However, as mentioned in the executive summary, future world growth prospects are still uncertain given the need to wind back the extensive fiscal and regulatory stimulus packages of many governments. Uncertainty will arise as to how the private sector will respond as these packages are unwound.

The Australian economy continues to boom with strong jobs growth which is good news for New Zealand in that it provides a measure of how well New Zealand exporters are likely to fare (a stronger Australian economy will generally "suck in" imports) given that Australia is by far and away our biggest export market.

International commodity prices, having rebound from the lows of 2008 and early 2009, are still holding up well, which is good news for our major exporters and particularly for the dairy sector with a significantly improved payout forecast for the 2009/10 season.

The ANZ Commodity Price Index has recorded its eleventh consecutive monthly rise, with a slight rise of 0.4 percent in January 2010. The level of the index is now over a third higher than compared with the same month a year earlier. However, a stronger NZ dollar (until recently), has largely removed significant benefits to NZ producers from higher international prices. On an annual basis the NZ dollar commodity price index has risen only 5.0 percent. The direction of the NZ dollar will be critical in future movements.

ANZ Commodity Price Index

	World Price Index	Monthly % Change	Annual % Change	NZ$ Index	Monthly % Change	Annual % Change
Jan 2005	153.1	0.7	14.9	117.1	1.8	9.0
Jan 2006	149.6	-0.2	-2.3	115.6	1.4	-1.3
Jan 2007	166.2	1.3	11.1	129.7	0.8	12.2
Jan 2008	211.7	-1.4	27.4	150.3	-1.8	15.9
Jan 2009	155.5	-4.3	-26.5	146.4	-4.3	-2.6
Jan 2010	212.2	0.4	36.5	153.7	-1.2	5.0

Source: ANZ Commodity Price Index NZ – 1 February 2010

While business and consumer confidence remains high, this has yet to be reflected to any material extent in improved investment and consumption. Businesses still appear relatively cautious in committing to major new expenditures although this does differ between and within sectors. Uncertainty generated by the current hiatus on tax policy may result in businesses and households taking a wait and see attitude in respect to major new investments. While the Government has clearly stated that proposals for a land tax, capital gains tax and risk-free return method for investment properties have been ruled out, the gate has been left open for increases to GST and possibly mechanisms to redress perceived advantages of housing investment – e.g. depreciation rates.

The Government will need to tread carefully in designing any new tax measures to ensure that they do not lead to further distortions to our current tax system. While the tax working group clearly pointed to deficiencies in New Zealand's current tax system, particularly high reliance on taxation of income, the Government needs to ensure that any response is rigorously thought through.

The Government is somewhat hamstrung in making sweeping changes and reductions to personal income tax rates given its commitment not to significantly reduce its demands on the economy through the expenditure side. The Government's ongoing commitment to the Working for Families package, unwillingness to address major items of expenditure such as the degree of entitlements and structure of National Superannuation, or political inability to address inequities with other items of expenditure such as the current interest free student loans, makes any changes to tax policies difficult. The Government is therefore in a very difficult position in respect to the upcoming Budget with expectations reasonably high for tax reform which will deliver benefits to all New Zealanders.

Forecasts: Real GDP % Growth

	Years Ending		
	Jan 10	Jan 11	Jan 12
Highest	-0.1	4.2	4.1
Average	-0.3	3.2	3.5
Lowest	-0.5	2.4	3.1

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

1.2 Monetary Conditions – Tightening still likely mid-2010

Interest rates – starting to rise

The Reserve Bank Governor kept the Official Cash Rate (OCR) at 2.5 percent at the latest review (28 January 2009) but with each successive announcement Dr Bollard is becoming more and more clear that the OCR will rise around the middle of this year. *"If the economy continues to recover in line with our December projections, we would expect to begin removing policy stimulus around the middle of 2010".* This is code for expect interest rate rises soon.

The Reserve Bank Governor has also sent a clear message to the Government to keep control of spending so monetary policy does not need to do all the work - a message that has generally been unheeded by successive governments in New Zealand with adverse consequences in respect to higher interest and exchange rates than would otherwise arguably be the case. *"The economy is being assisted by both monetary and fiscal policy support. As growth becomes self sustaining, fiscal consolidation would help reduce the work that monetary policy might otherwise need to do".*

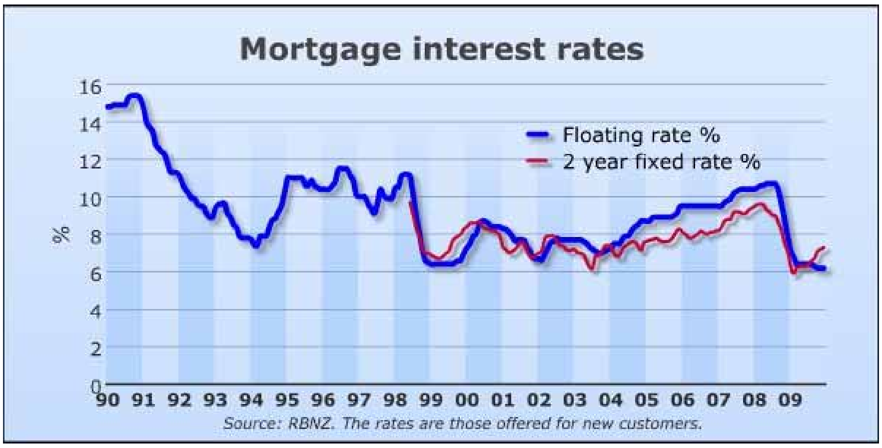
In light of the above, the 90 day bill rate is forecast to increase in 2010 and level out at around 6 percent by January 2012.

Forecasts: Interest Rates (90 day bills)

	As at end of		
	Jan 10	Jan 11	Jan 12
Highest	2.9	5.0	6.6
Average	2.8	4.7	6.0
Lowest	2.8	4.3	5.3

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

Already fixed term mortgage rates have increased over recent months and those households that did not fix a year or so ago have now missed the boat and are probably better to stick with floating rates given the uncertainty over the extent to which interest rates might rise.

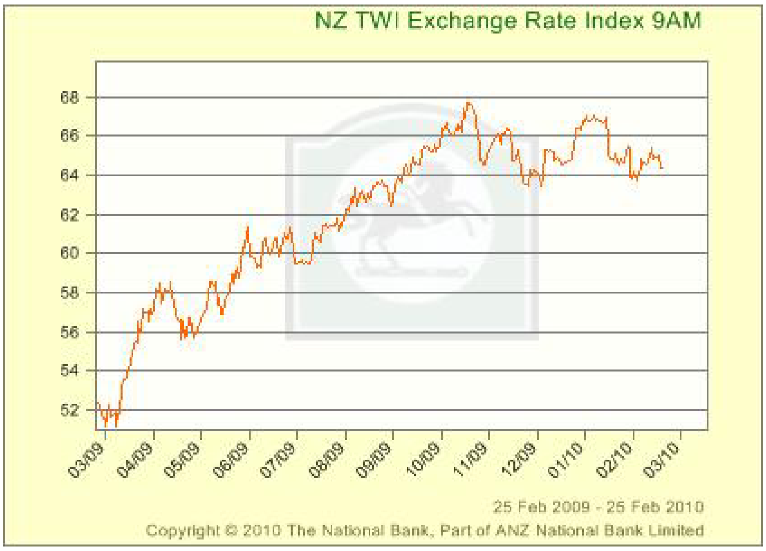


The New Zealand Dollar – currently taking a breather but medium term rise likely?

Strong growth in the value of the NZ dollar against most of our major trading partners has been replaced by a 2-3 month period of volatility, with the NZ dollar having lost a little ground of late. Whether this current period of losing ground is here to stay is anyone's guess (given the wide variations in forecasts for the NZ dollar below). Nevertheless, there is a school of thought which would indicate that the current blip in the NZ dollar is simply that, and it will continue to appreciate over the medium term. The reasoning for this is both from a domestic and international perspective.

From an international perspective, the NZ dollar has come under some pressure given continued global uncertainty and the rush back towards what are perceived to be safe havens rather than commodity based currencies. However, this will change as confidence internationally improves.

A raft of mediocre or even slightly negative news such as official unemployment figures and stagnant retail results has also tended to hit the NZ dollar slightly over the past few months.



Finally expectations of higher interest rates will likely add a support factor to the NZ dollar over coming months. Clearly currency volatility is here to stay and it is not uniquely a NZ issue but a global phenomenon which businesses and investors need to manage. The question of when to hedge and how much exposure is acceptable will vary according to each business as there are clearly pros and cons which must be worked through. Such decisions should not be taken without expert advice.

Forecasts: Exchange Rates

AUD (cents)			
	Jan 10	Jan 11	Jan 12
Highest	0.805	0.840	0.880
Average	0.792	0.817	0.843
Lowest	0.787	0.780	0.815

USD (cents)			
	Jan 10	Jan 11	Jan 12
Highest	0.720	0.780	0.700
Average	0.700	0.709	0.673
Lowest	0.680	0.640	0.660

TWI			
	Jan 10	Jan 11	Jan 12
Highest	66.1	71.3	66.7
Average	64.5	66.9	65.9
Lowest	63.0	61.4	65.1

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

Inflation - sleeping giant?

Forecasts out to January 2012 show that inflation is widely tipped to be at the higher end of the Reserve Bank's target of 1-3 percent as outlined below.

While there is an almost universal view that inflation is dead and buried, the potential for it to rear its head over the medium term should not be underestimated for a variety of reasons which are briefly outlined below. While clearly measured inflation is currently well within the target band, this does not provide any comfort going forward.

The Consumers' Price Index (CPI) fell 0.2 percent for the December 2009 quarter. On an annual basis the CPI increased 2.0 percent.

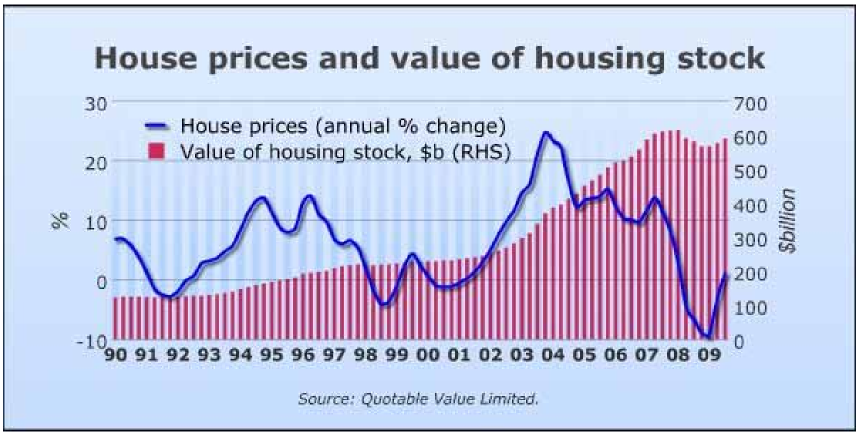
The tradables component of the CPI decreased 0.5 percent for the December quarter 2009 and on an annual basis rose 1.5 percent. The non-tradable sector component increased 0.1 percent for the December 2009 quarter but on an annual basis was still 2.3 percent – the lowest since the year to the December 2001 quarter, reflecting relatively low annual increases for electricity, rentals for housing, and the purchase of new housing.

In light of the relatively benign headline results, some commentators have suggested that the Reserve Bank will delay raising the OCR while financial markets and institutions have generally revised downwards in their outlook for inflation.

While there are some pressures taking the heat out of inflation in the short term, e.g. discounting decisions by retailers, a still relatively soft labour market which is containing wage growth, and relatively low (and stable) oil prices compared to recent years, we think there are dangers in writing off inflation – particularly non-tradables inflation, for a number of reasons.

First, as the economy picks up, and capacity utilisation increases (which surveys suggest is happening); pressure on resources will increase with an inevitable effect on prices. This applies equally to domestically generated inflation and "imported" inflation via increased costs associated with oil as the international economy improves. Business opinion surveys point to expectations of pricing intentions improving later this year, after being relatively stagnant for most of 2009.

Second, relatively high levels of net migration inflows will increase the demand for goods and services, including housing. Given that building consents are only starting to pick up from a low base, and the general lag time in getting new houses on stream, mounting pressure on housing seems inevitable.



Third, while wage pressures have generally eased over the last year in light of continued declines in employment and significantly higher levels of unemployment, the days of "wage freezes" are likely to be limited as expectations for the labour market continue to improve.

Fourth, a number of cost pressures are likely to impact on households, including hikes in ACC levies this year, with potentially significantly more next year given that the Earners' and Motor Vehicle Accounts are far from being fully funded and are by any responsible analysis, in significant financial trouble, given that legislation requires claims post-1999 to be full funded.

Other potential impacts could include the impact of the introduction of the Emissions Trading Scheme (ETS), while the timing of any rise in the Goods and Services Tax (GST) probably also deserves consideration, although a GST rise at least should not result in any generalised increase in prices over time, as it will likely be a “one off”.

The key issue for the Reserve Bank is not to move too early in raising interest rates in light of inflationary pressures, some of which are outlined above, but not to wait until the horse has bolted and then resort to significant rises, and to try and rein inflation in. Slow and steady movements in interest rates would be preferable to large and erratic changes. This applies equally at both ends of the business cycle.

Forecasts: % Change in Inflation (CPI)

	Years Ending		
	Jan 10	Jan 11	Jan 12
Highest	2.4	2.8	3.0
Average	2.2	2.3	2.8
Lowest	1.8	1.6	2.6

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

1.3 Business and Consumer Confidence – consolidating at high levels

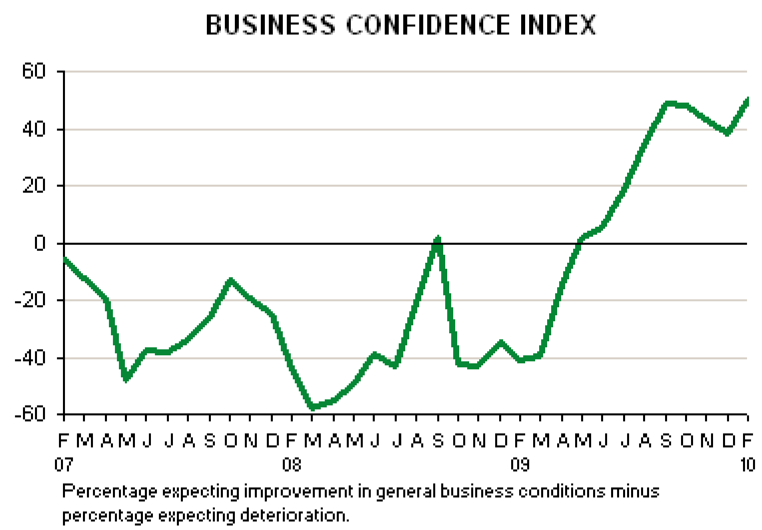
Business confidence – continues to remain high but not backed up by action - yet

Both business and consumer confidence have consolidated at relatively high levels.

The National Bank’s Business Outlook (25th February 2010) shows that confidence continues to remain high with a net 50 percent of respondents expecting better times ahead, up 11 percentage points from the December 2009 result.

Confidence was up across all sectors surveyed apart from retailing, with confidence falling for that sector.

National Bank Business Confidence Index



Importantly, firms’ own activity expectations remain high with a net 42 percent of respondents expecting an improvement over the coming year, up 5 percentage points from December.

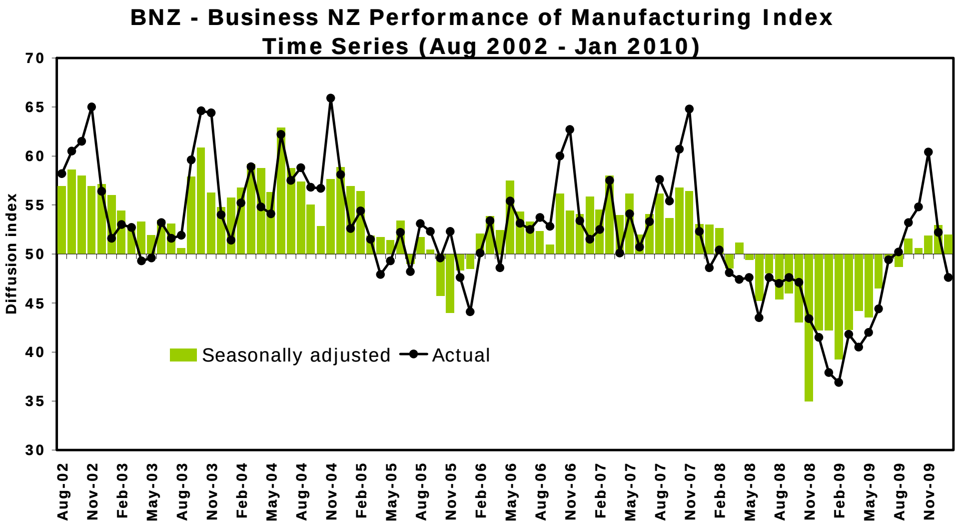
Profit and employment expectations are increasingly positive while the only fly in the ointment continues to be investment intentions – with a net 8 percent expecting to be investing more over the coming year, down slightly (2) on the December 2009 result.

Other surveys of business confidence also report improvements from the lows of late 2008/09.

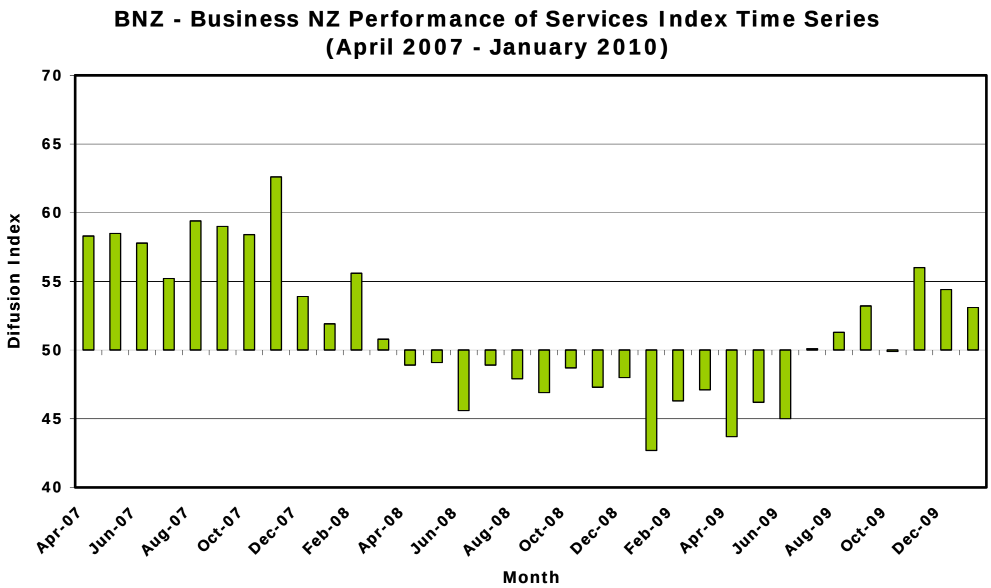
Federated Farmers mid-season Farm Confidence Survey (January 2010) shows that farm confidence has significantly improved from the depths recorded in July 2009.

In a big turnaround from the last survey, dairy farmers are now the most optimistic (not surprisingly on the back of an improved payout for the 2009/2010 season), with a significant majority expecting improvements in general economic conditions and their own farm's profitability. They also expect to increase production and on-farm spending and reduce debt. Sheep and beef farmers and grain farmers are less optimistic and by some measures many remain pessimistic. For some sectors, continuing drought conditions in some parts of the country are causing ongoing concern.

Key indicators of profitability, production and investment are all showing steady improvement.



Both the Manufacturing and Services Sectors are now both in the black after having been firmly in the red for the best part of 18 months through the second half of 2008 and most of 2009. This is evidenced by the results of the latest BNZ-Business NZ Performance of Manufacturing (PMI) and Services (PSI) Indexes. The PMI stood at 52.0 for the month of January 2010, while the PSI stood at 53.1. Perhaps more importantly, the key forward looking indicators such as production and new orders are now firmly in positive territory, which augurs well for future employment growth in both these major sectors.



Consumer confidence – easing back but still positive

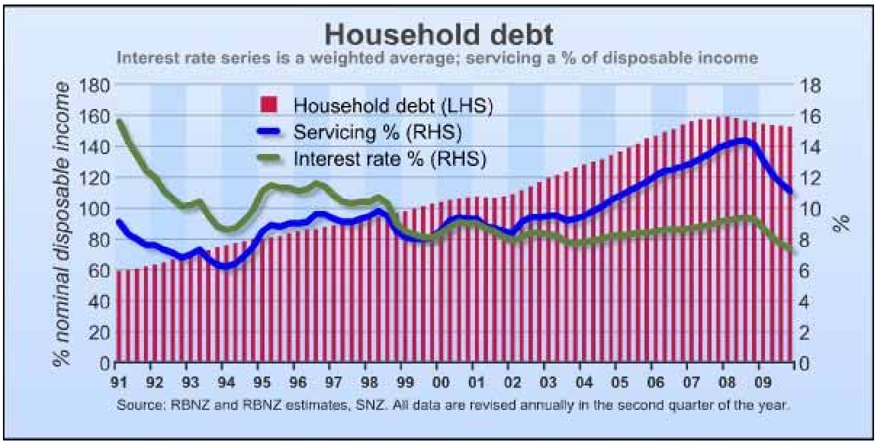
Consumers remain positive after having been generally in negative territory for much of 2008 and the first quarter of 2009. Significant reductions in interest rates, reduced inflationary pressures and improved economic perceptions have acted to partially offset some pessimism generated by rising unemployment and moderate wage growth of late. The latest ANZ Roy Morgan Consumer Confidence Survey shows confidence fell 7.8 points to 123.6 in February 2010, from a three-year high achieved in January 2010.

Activity in a number of sectors e.g. housing and retail and data on electronic transactions has generally only improved slowly. Despite reported levels of confidence holding up reasonably well, consumers are still taking a relatively cautious approach to major expenditure decisions which is being reflected in heavy discounting by retailers to try and move stock.

While high levels of consumer confidence remain – risks which could undermine such confidence are still evident.

Obviously the future direction of employment and the associated unemployment rate will remain top of mind for many households as reflected in the recent easing in consumer confidence.

Household debt levels, while moderate of late after strong growth until last year, will come under pressure as interest rates rise. Moreover, moderate wage growth on the back of increased unemployment, combined with increased costs such as significant rises in the ACC Earner Levy, will act to constrain growth in household disposable incomes.



Pressure on housing prices is building due to rising demand on the back of relatively strong net migration inflows and the fact that domestic building activity has taken a breather over the past two years as evidenced by declines in building consents, until very recently. Lags in housing coming on stream will put upward pressure on house prices which can be a two-edged sword. On the one hand, households with mortgages automatically gain a higher percentage of equity in their house (on a paper basis) and therefore may feel confident to spend more. This has certainly been the case in the past. Alternatively, those renting will likely face higher rents (simply supply and demand conditions) and therefore may be subject to even greater constraints.

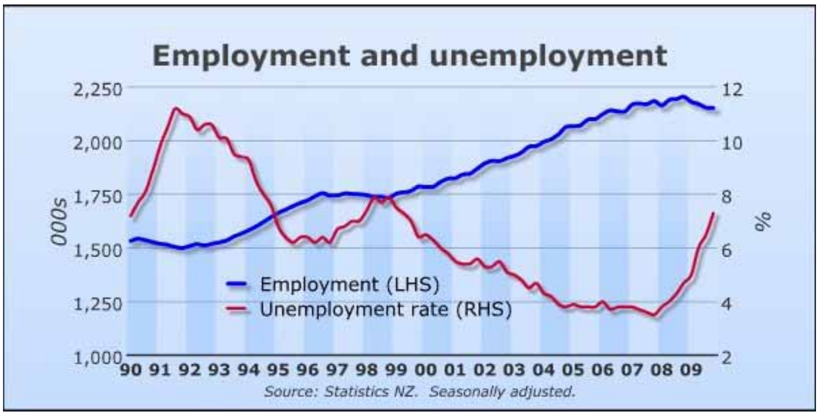
Finally, the impact, if any, associated with proposals of Government in respect to the tax treatment of investment housing could have an impact on the supply of housing but until the specific details of the government's proposals are made public, any impact is largely unknown. Possible personal income tax cuts which are likely to be announced in the upcoming Budget will probably be implemented too far down the track to have a material impact on confidence in the short-term.

1.4 Labour markets – on the rise

Employment – moderate growth but unemployment rate to decline only slowly

While the official Statistics NZ's Household Labour Force Survey (HLFS) which showed unemployment at 7.3 percent for the December quarter 2009 was above market expectations, the results need to be interpreted with a fair degree of caution.

While unemployment did rise substantially, this was largely as a result of more and more people entering the labour market as labour market conditions deteriorated and household budgets come under increased pressure. The reverse is true as labour markets tighten. In this respect the 7.3 percent unemployment rate, while obviously a significant concern given that it represents a huge and irretrievable waste of human resources with significant implications for those affected, tends to mask the fact that employment was more or less unchanged for the quarter – emphasising the point that we can be confident that further employment shedding has ended and slight growth can be expected for the March quarter 2010 when official results are released in May.



Notwithstanding the above, the impact of unemployment is severe on particular groups within the workforce. The unemployment rate for youth (15-25) has risen to 18.4 percent - up from 12.0 percent a year ago. The unemployment rate for Maori and Pacific people has risen from 9.0 percent to 14.9 percent over the same period.

As these figures show, a significant share of the burden of unemployment continues to be shouldered by the most vulnerable in the labour market – namely the young and unskilled who desperately need employment as a means of gaining the skills and experience necessary to increase their productive capacity and hence their earnings' potential over time.

Given such concerning statistics, it is important that any artificial barriers to people entering the labour force are dismantled as fast as possible. In this respect both the demand and supply side of the equation need to be looked at. 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 a brighter note, forward looking surveys such as the Westpac McDermott Miller Employment Confidence Index (January 2010) and various business opinion surveys broadly confirm that employment confidence continues to improve. Confidence has not only improved in respect to future employment but also in respect to current employment conditions.

The BNZ-Business NZ PMI (February 2010) indicates that employment activity (49.6), while still slightly under the level of no change (50.0), has continued to steadily improve from the very negative results experienced at the same time in 2009. The BNZ-Business NZ PSI (February 2010) continued its upward journey to sit at 52.7 compared to 43.5 at the same time last year.

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 that time. However, these improvements need to be put in perspective in that current job ads are still well below those achieved during the peak of mid-2007. Nevertheless, improvements in job ads are a clear leading indicator of potential future employment growth for the remainder of this year and beyond.

Given constrained household budgets, the potential exits for the labour force participation rate to increase as more enter the labour market in search of employment, thus any reduction in the rate of unemployment is likely to be relatively slow as outlined below.

Forecasts: Unemployment % (HLFS)

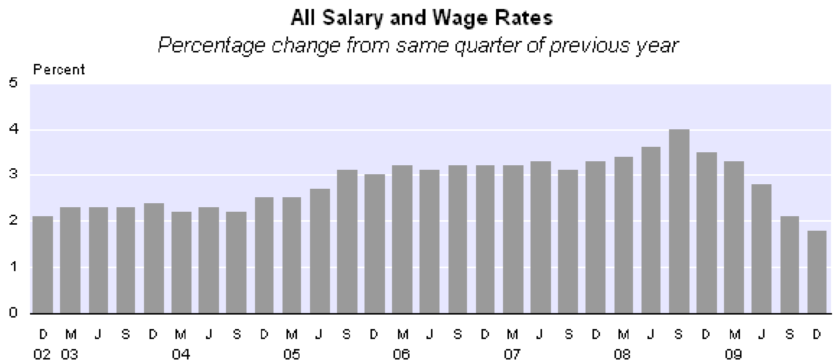
	Quarter		
	Jan 10	Jan 11	Jan 12
Highest	7.5	7.5	6.8
Average	7.3	6.9	6.2
Lowest	7.1	6.3	5.4

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

Labour costs – relatively flat

As could be expected, wage and salary rises have continued to trend down over the last year given the general easing in labour market pressures.

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 1.8 percent from the December 2008 quarter to the December 2009 quarter. The latest annual increase is the lowest since a 1.8 percent increase in the year to the June 2001 quarter.



Source: Statistics NZ

Given that unemployment is still projected to remain high for some time (certainly by recent historical standards) and employment growth is relatively flat, there are likely to be restraints on wage demands as individuals and businesses adjust to tighter economic conditions, although some pressures may be brought to bear on those companies with effective "wage freezes" over the last year.

Forecasts below indicate that total labour cost inflation is expected to remain around current levels for 2010, before improving next year given projections of improving employment growth and a general lowering in the rate of unemployment.

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

	Years ending		
	Jan 10	Jan 11	Jan 12
Highest	1.9	3.0	3.1
Average	1.6	2.0	2.4
Lowest	1.3	1.3	1.8

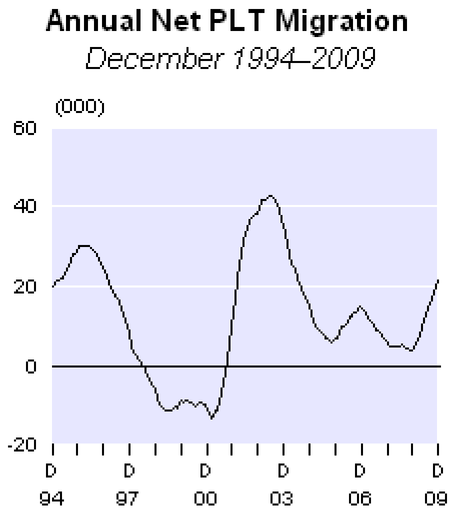
Source: ANZ, ASB, BNZ, National, and Westpac

Net migration gain – continues to be driven by drop in long-term departures

Net migration gains have continued to improve substantially almost exclusively as a result of significant declines in outflows. Since February 2009, permanent and long-term (PLT) departures have fallen by at least 1,000 each month compared with the same month of the previous year.

Net migration was 21,300 in the December 2009 year, compared with 3,800 in 2008. The net PLT migration of 21,300 in 2009 was much higher than the annual average of 11,900 for the December years 1990-2009. In short the increases in net migration over the past year were due to fewer departures, particularly to Australia.

The net PLT outflow to Australia was 18,000 in 2009, down from a record net outflow of 35,400 in 2008. While outflows have declined over the last year, it is likely that more people will start exiting New Zealand to Australia over coming months, particularly given the position of the Australian economy which largely avoided the recent world recession and is currently going from strength to strength in terms of both economic and employment growth.



Source: Statistics NZ

Continued short-term increases in net migration will boost the general demand for goods and services, while putting some upward pressure on the housing market – a market which in some areas of the country is showing significant price increases. At the same time, increases in net migration add to the potential size of the labour market which can have two effects. First they can provide an important labour resource while on the other hand they could exacerbate unemployment over the short-term.