

Introduction

This New Zealand Economic Update is produced monthly and presents current information on recent national business events, along with an update of key economic indicators.

Labour Market Remains Tight

The latest Household Labour Force Survey [HLFS] results show that New Zealand's job market was strong in the June quarter of 2005. The unemployment rate was 3.7%, the lowest rate amongst OECD countries, and the second lowest since the HLFS began.

After weak activity in the previous quarter, employment rebounded in the latest quarter. Total employment increased by 11,000 to reach 2,065,000. Between the March and June 2005 quarters there was 0.5% growth (this was slightly above the market expectation of 0.4%).

Employment is now at the highest level ever recorded in the HLFS. Strong growth has been largely driven by the increases in female employment, which grew by 0.9% to reach 955,000. Male employment showed a small increase of 0.2% to reach 1,110,000.

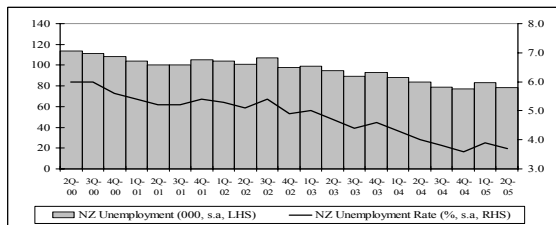
Annual employment growth by gender showed a similar pattern: 4.9% growth for women, and 1.5% for men. In terms of job types, part-time employment dropped slightly (0.1%↓ over the quarter), but full-time employment rose by 0.8%.

Again, the gain in full-time jobs mainly came from females (11,000 or a 1.8% growth), while males contributed 2,000 (or a 0.2% increase).

The composition of the labour market matches sectoral economic performance. Those industries sensitive to exchange rates have done poorly. For example, employment in the agriculture, forestry and fishing sectors have declined by 4.6% over the past 12 months while manufacturing showed a reduction of 5.5% in employment. On the other hand, the services sector (such as the finance and property industries) remained buoyant over the same time period.

Unemployment dropped 4,000 (or 5.2%) in the June quarter, falling to 78,000. A reduction in unemployed females (7.6%↓), along with a 2.9% decrease in male unemployment contributed to the fall. Meanwhile, the labour force participation rate rose slightly (up 0.1 percentage points) to 67.7%.

It is clear that given the strength of the labour market, the RBNZ will be reluctant to adjust its monetary policy in the short term.



Source: HLFS, Statistics NZ

Brief Review of Economic and Fiscal Update

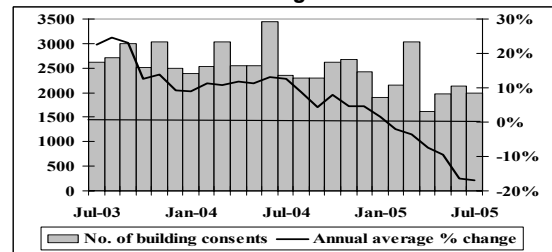
Core crown revenue is expected to earn an extra \$700 million in the 2006 fiscal year, and \$1 billion thereafter. Consequently, the bond programme has been cut back, from \$2.8 billion annually in the 2007-2009 period to \$2.05 billion per annum. This will drive sovereign gross debt down from 23.5% of GDP to 19.1% in 2009.

The Government also announced its plan for expanding its Working for Families welfare package by \$1.3 billion over the next four years.

The Treasury released its Economic and Fiscal Update (EFU) recently. The key contents of the EFU reflected that tax revenues will increase. Expenditures are expected to be predominantly unchanged. The combination of these forecast outcomes will lead to a reduction in Government borrowing. In other words, a reduction in the volume of government bonds issued. The driving force behind the contents of the EFU is an expected increase in nominal GDP for the 2005/06 year (because of higher inflation). The outlook for real GDP growth remains unchanged.

Key Indicator Trends

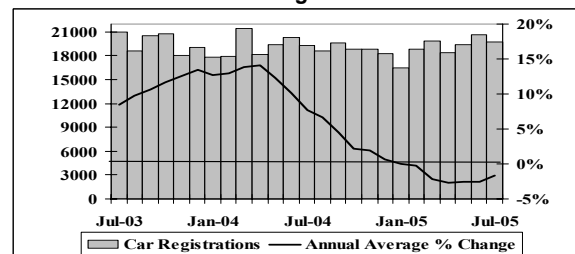
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

The residential building market has been flat since April 2005, and July was not an exception. The number of permits issued for new dwellings decreased from 2,129 recorded in June to 1,992. The annual average growth in the number of permits issued for new dwellings was -16.8% for the year to July 2005.

Car Registrations

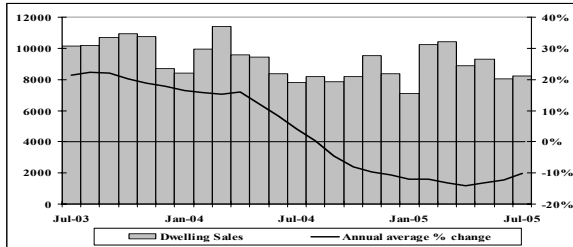


Source: Land Transport Safety Authority

Following a boom in June 2005, the number of motor vehicle registrations declined in July. Nationally, there were a total of 19,700 cars (including both new and overseas types) registered during the month. This figure

was 904 less than the figure recorded a month earlier, but 358 more than the figure registered in July 2004. The annual average growth rate in the number of new and ex-overseas car registrations was -1.7% for year to July 2005

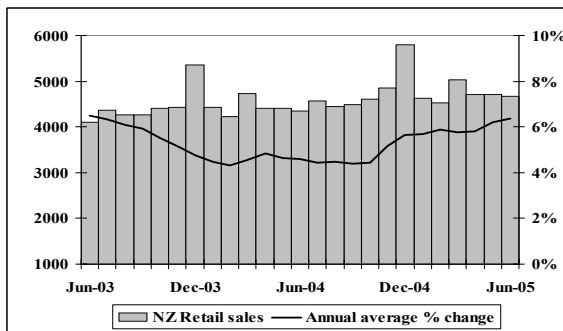
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

Compared to June 2005, national dwelling sales increased by 188 to reach 8,213 in July. This figure was greater than the 7,802 recorded in July 2004. However, the median sale price fell by \$4,500 between June and July. The median national sale price in July was \$280,000. The annual average growth rate in the volume of residential real estate sales was -10.3% for the year ended July 2005.

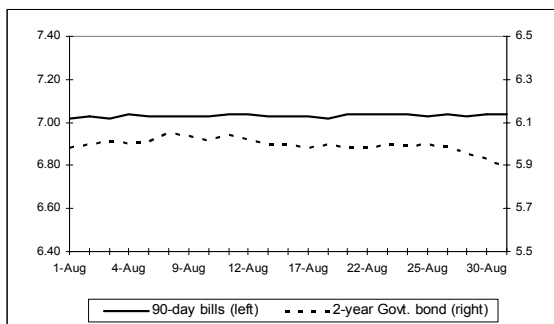
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of retail sales in New Zealand dipped from \$4,716.4 million recorded in May 2005 to \$4,662.5 million in June. This figure was an increase of \$321.1 million (or 7.4%) on the level of sales recorded in June 2004 figure. The annual average growth rate in the value of retail sales was 6.4% for the year ended June 2005.

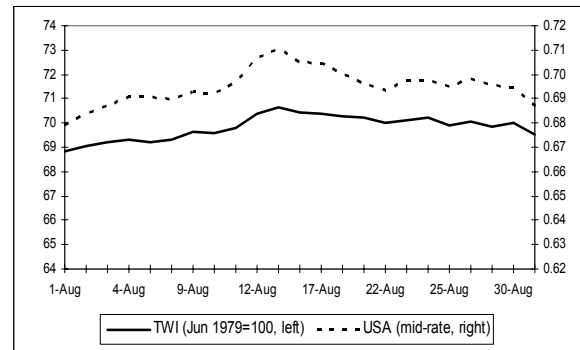
Interest Rates



Source: Reserve Bank of New Zealand

Despite a small fall in the two-year government bond yield during August, New Zealand's wholesale interest rates remained stable throughout the month. By the end of the month, 90-day bill rates have stood at around 7.04%, almost the same as a month ago.

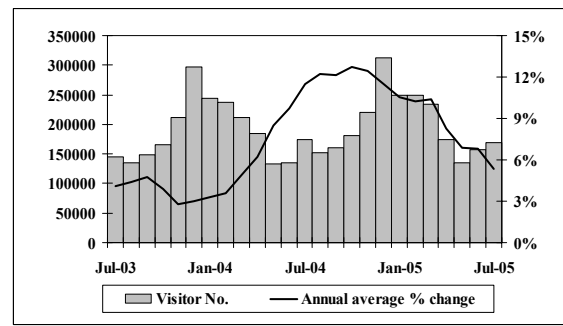
Exchange Rates



Source: Reserve Bank of New Zealand

The New Zealand's dollar appreciated against its major trading partners' currencies for the first 10 days of August and managed to maintain a relatively high level for the rest of the month. By the end of the month, NZ \$1.0 traded against US \$0.6872 and the trade-weighted index [TWI] stood at 69.5 points.

International Arrivals



Source: Statistics New Zealand

July 2005 saw a total of 168,422 short-term international tourists visit New Zealand, up from 157,547 recorded in June, but a fall of 4,906 (or 2.8%) on July last year. The annual average growth rate in visitor arrivals has slowed from 6.8% for the year ended June 2005 to 5.3% for the year ended July 2005.

Summary

While the New Zealand economy is slowing down, the labour market as confirmed by the latest HLFS remains strong.

The June quarter HLFS shows that the underlying economic fundamentals remain solid. This result is consistent with the June 2005 Quarterly Forecast published by NZIER. According to NZIER, the economy will slow from a growth rate of 4.1% for the March 2005 year to around 2.0% for two following years. The economy is forecast to rebound back to a growth rate of 2.4% and 2.9% in the year to March 2008 and the year to March 2009 respectively.

The key driving forces behind a slowing down in the economy are domestic demand becoming weaker as household income and spending slow down. External sectors will be affected by deteriorating terms of trade and a moderation of international demand. However, the NZIER also points out three favourable conditions for the New Zealand economy:

1. Household consumption will continue to grow, supported by wage and income growth.
2. Cheap imported capital items will allow business investment to grow in the short-term.
3. Growth in exports will accelerate as the New Zealand dollar depreciates over the next three years.

Looking at the National Bank's Business Confidence Survey, business confidence improved in August 2005, with pessimists outnumbering optimists. A net 32% of firms expected general economic conditions to

deteriorate over the coming year. This survey result was better than a net 42% in July who expected economic conditions to deteriorate over the coming year.

Company's expectations of future activity remained positive with a net 14% anticipating an improvement over the next 12 months. However, there are risks. In particular, high oil prices and persistent wage pressures will drive up costs and potentially slow down real GDP growth.

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