



NEW ZEALAND ECONOMIC UPDATE

November 2005

NATIONAL ECONOMIC UPDATE

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.

Unemployment Rate Hit a Record Low

According to the September 2005 quarter Household Labour Force Survey [HLFS, Statistics New Zealand], New Zealand's job market has further tightened. The number employed grew by 1.3% on the number of people recorded as being unemployed in the June quarter of 2005. This result was well above the median expectation of 0.3%. The percentage change between the number of people employed in the September quarter of 2005 and same quarter last year was 3.5%. Meanwhile the unemployment rate decreased to 3.4%, a record low over the 19 year history of the survey. New Zealand now has the lowest unemployment rate in the OECD.

Quarterly employment growth was driven by growth in both male and female employment. Among the total increase of 26,000 jobs (1.3%↑), males accounted for 17,000 (1.5%↑), and females accounted for 9,000 (0.9%↑). On an annual basis, employment grew by 72,000 (3.5%↑).

Full-time employment increased by 22,000 (1.4%↑), while part-time jobs were up by 3,000 (0.7%↑). Consistent with the strong lift in employment, total actual hours worked per week increased 1.3%.

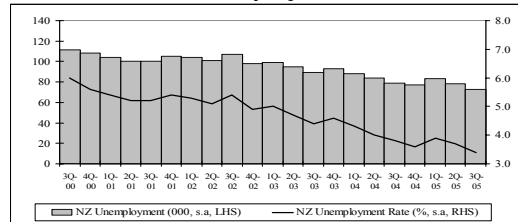
Employment in the wholesale and retail trade sector increased by 24,300 over the last 12 months. The construction industry was buoyant (19,800↑), yet the primary and manufacturing industries suffered from downward movements.

The working age population grew by 7,600 (or 0.2%) in the quarter. While the total labour force increased 21,000 (1.0%↑), those not in the labour force decreased 11,000 (1.1%↓). This led to an increase of 0.4 percentage points in the labour force participation rate [LFPR], and pushed the LFPR to 68.2 points, the highest level since the survey began in March 1986.

Unemployment dropped by 5,000 (or 6.0%) to 73,000 over the last three months. There were 35,000 unemployed males and 38,000 unemployed females. Over the year, male unemployment decreased by 4,000 (10.4%↓) while female unemployment fell by 6.2%.

Statistics New Zealand pointed out that 'computer assisted data' (accounting for 1/8 of the sample) was excluded in the survey, so revisions are possible in due course.

Unemployment

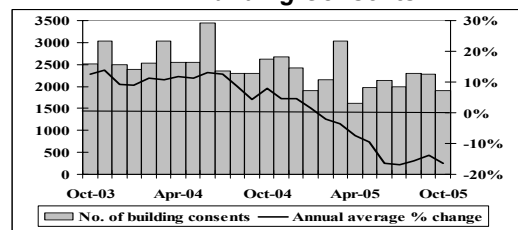


Another Hike in the OCR

Pressure exerted by activity in the housing sector, together with a tight labour market, prompted the Reserve Bank of New Zealand [RBNZ] to increase the Official Cash Rate [OCR] by 25 base points in early December 2005. The OCR now stands at 7.25%, one of the highest interest rates in the OECD. The RBNZ has revised its forecasts. In particular, the forecast inflation peak has been lowered from 3.9% to 3.4%. This is primarily due to the fact that inflation is now forecast to fall back within the RBNZ's target inflation band of one to three per cent by mid-2006. Forecast short-term GDP growth has been upgraded from 2.75% to 3% for the year to March 2006, but long-term growth has been down-graded from 2.0% to 1.5% for the year to March 2008. This implies that the tightening of monetary policy has come to an end for this economic cycle.

Key Indicator Trends

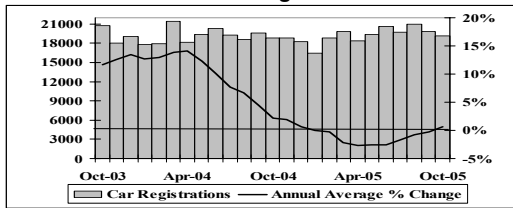
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

Activity in dwelling construction was weak in October 2005. Only 1,901 new permits were authorised for dwellings during the month. This was the third lowest level since March 2003. Because the first and the second lowest figures also occurred in the current October year, it was not surprising that annual average growth rate in the number of building consents authorised was -16.5% for the year ended October 2005.

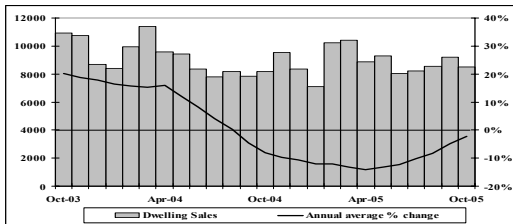
Car Registrations



Source: Land Transport Safety Authority

Including both new and ex-overseas types of cars, the number of motor vehicle registrations reached 19,160 in October 2005. While this was lower than the 19,816 recorded in September, it was an increase by 327 (or 1.7%) compared to October 2004. The annual average growth rate in the number of new car registrations was 0.7% for the year ended October 2005.

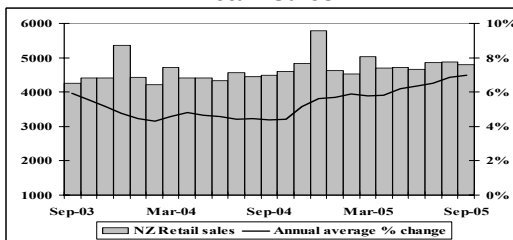
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

Higher interest rates impacted negatively on the national residential housing market in October 2005. There were a total of 8,513 dwelling properties sold during the month. This figure was down from 9,186 recorded in September, but up from 8,191 recorded 12 months ago. The median house sale price increased by \$5,000 from September's level to reach \$295,000 in October. The annual average growth rate in the volume of real estate sales was -2.2% for the year to October 2005.

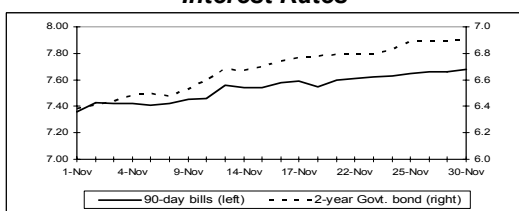
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

On a monthly basis, the New Zealand retail sales market slowed in September. Total sales were down from \$4,871.9 million recorded in August to \$4,791.3 million in September. However, this result was still better than the \$4,488.4 million recorded in September 2004. The annual average growth rate in the value of retail sales was 7.0% for the year ended September 2005.

Interest Rates

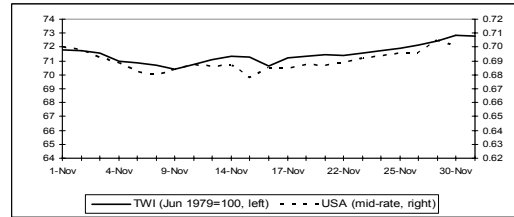


Source: Reserve Bank of New Zealand

An upward trend was shown clearly in the New Zealand wholesale interest rate market in November.

This trend was largely triggered by the expectation of a further hike in the OCR. By the end of the month the 90-day bill rate stood at 7.68%.

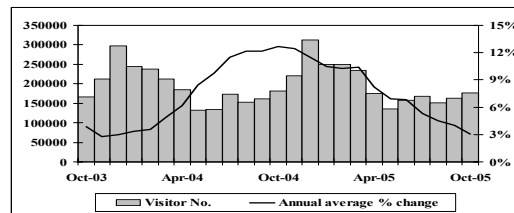
Exchange Rates



Source: Reserve Bank of New Zealand

In spite of an initial fall, the buoyant labour market together with weak performance offshore resulted in the appreciation of the New Zealand currency in November. By the end of the month, the New Zealand dollar reached US \$0.7, and the trade-weighted index stood at 72.8 points.

International Arrivals



Source: Statistics New Zealand

While the number of short-term international arrivals increased from 163,785 recorded in September to 176,200 in October, they decreased by 5,200 (or 2.9%) on the number of arrivals recorded in October 2004. This result was largely due to less visitors from Australia. The annual average growth rate in the number of international arrivals to New Zealand decreased from 4.0% for the September 2005 year to 3.1% for the October 2005 year.

Summary

Escalating interest rates, high exchange rates, and low world commodity prices, have impacted adversely on New Zealand businesses' expectations. According to the National Bank's latest business confidence survey, business confidence crashed in November 2005. A net 66% of firms expect general economic conditions to deteriorate for the next 12 months. A net 55% also took a gloomy view in the previous month.

Farmers were the most pessimistic, with a net 81% feeling negative about the outlook for the economy over the coming year. A net 68% of manufacturers felt pessimistic. Those in construction were the least pessimistic group but still took a negative view with pessimists outnumbering optimists by 56%.

Firms' expectations of their future activity, a key business indicator, also dropped significantly. Compared with a net 12% of firms who remained optimistic about their business future in October, November saw the level drop to zero, the lowest survey result since year 2000. In addition, a net 23% of businesses anticipate a fall in profit.

Economic Overview Looking Ahead

The latest HLFS results confirm that the job market remains strong. According to the National Bank, 12 out of 14 regions enjoyed economic growth over the third quarter, while year-on-year growth for New Zealand reached 2.9%. Therefore, many economic commentators believe that the economy will make a 'soft landing' over the next 18 month period.

Economic growth has started to slow. This is mostly due to the affect of the high New Zealand dollar on our export sector. Additionally, world prices for our export commodities have begun to ease. Household consumption and business investment have strongly outstripped the economy's productive capacity in the

last few years leaving monetary policy with little headroom. In short, the housing market remains strong, wage growth continues to accelerate, and the labour market is tight. The New Zealand economy is in the paradoxical position of possessing growth predominantly driven by strong household consumption and business investment whilst much of the tradable sector faces strong and unpleasant pressure due to the high exchange rate.

Disclaimer: This national economic update is produced monthly by APR Consultants. Although the update incorporates the most recent information available, many of the figures are provisional. Accordingly, no liability can be accepted for the accuracy of the material contained. Businesses and individuals are advised to seek professional advice before making major business decisions and any decisions based on the information contained in this report are made entirely at their own risk.