



# NEW ZEALAND ECONOMIC UPDATE

January 2006

## 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.

### Inflation Has Peaked

According to Statistics New Zealand, the Consumer Price Index [CPI] increased by 0.7% in the December quarter of 2005. This was lower than the estimates of 0.9% and 0.8% expected by the RBNZ and the market respectively. Quarterly movements for the last three quarters were 1.1%, 0.9% and 0.4% respectively. Annual inflation was 3.2% for the year to December 2005 whereas it was 3.4% for the September 2005 year.

All of the nine groups in the CPI recorded increases over the quarter. The housing, transportation and food groups made the largest contributions to the increase in the value of the index.

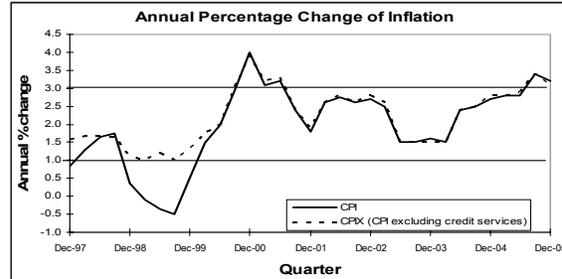
Over the last three months, prices in the housing group increased by 1.2%. In particular, prices for building and buying new dwellings rose by 1.6%. If construction prices had not increased, the CPI would have decreased by only 2.6%. Compared to a year ago, prices in the housing group increased by 5.8%. This was due to higher construction costs (6.4%↑), real estate agent fees (20.1%↑) and local authority rates (7.4%↑).

The quarterly index for the transportation group increased by 1.0% in the December quarter. The biggest upward contribution in this group came from international airfares. These prices increased by 12.3%. Notably this was the largest increase since the June quarter of 1981. This increase was predominantly caused by a seasonal lift in prices on Asian routes. Price falls on petrol (3%↓) and used cars (2%↓) partly offset the upward movements in the transportation group. Interestingly, on an annual basis petrol prices increased by 17.4% and international air travel dropped 3.2% whereas quarterly price movements for these moved in the opposite direction.

Led by an increase of 2.9% in the meat, fish and poultry subgroup, food prices were 0.5% higher than those three months ago. This brought annual food inflation to 1.5% for the year to December 2005.

Other groups, such as recreation and education (0.8%↑), personal and health care (0.4%↑) and apparel (0.5%↑) all showed small but positive movements over the quarter.

The fall of the annual CPI from 3.4% to 3.2% signals that inflation may have peaked. In response to this tentative signal the RBNZ did not increase the Official Cash Rate in January.



Source: RBNZ and Statistics NZ

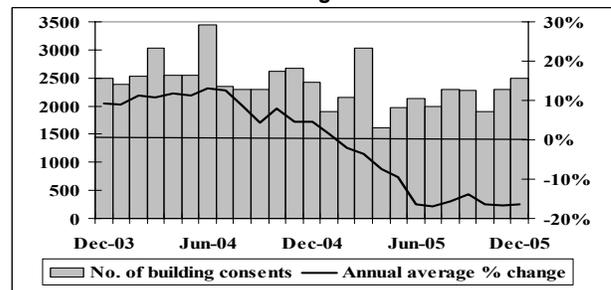
### Exports Improved in December 2005

The latest statistics for the month of December 2005 showed that exports were valued at \$2,651 million. Exports of merchandise goods in December 2005 grew by \$110 million (or 4.3%) compared to the value of exports recorded in December 2004. Strong international demand for dairy products was the main driver behind the growth. Imports of merchandise goods were valued at \$2,943 million for December 2005. This figure was a decrease of \$124 million (or 4.0%) on the value of imports recorded in December 2004. The main causes of this decrease were falls in the importation of mechanical machinery and equipment, vehicles and fertilisers. This brought the monthly trade deficit to \$292 million. This result was slightly worse than the average deficit of \$279 million for December months during the last decade.

For the year to December 2005 merchandise exports totalled \$30,820 million, with a small growth of 0.4% (\$108 million) on the value of exports recorded in the year to December 2004. The value of imports however reached \$37,261 million for the year ended December 2005. This figure was an increase of \$2,345 million (or 6.7%) from the value of exports recorded for the year ended December 2004. As a result, the merchandise trade balance was a deficit of \$6,441 million. This deficit was the largest recorded for a calendar year.

## Key Indicator Trends

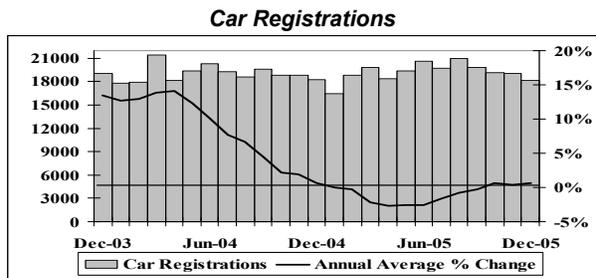
### Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

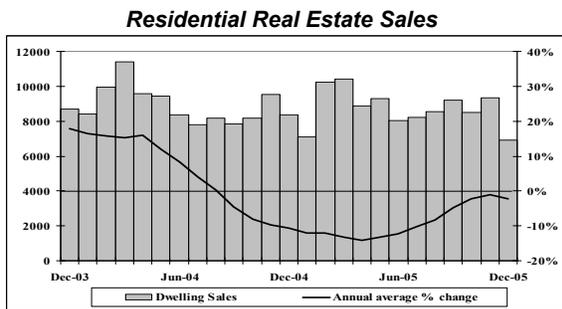
There were a total of 2,491 permits issued for new residential dwellings nationwide during December 2005. The value of these permits was approximately \$484.6 million.

This was the highest number of permits issued since April 2005, and was higher than the 2,416 new residential building permits issued in December 2004. The annual average growth rate in the number of new residential building permits issued in New Zealand was 16.3% for the year to December 2005.



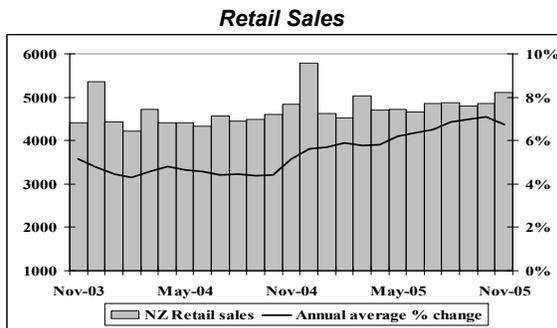
Source: Land Transport Safety Authority

Since reaching a high in August of 2005, the number of car registrations has decreased. There were 18,139 cars (including new and ex-overseas car types) registered in the last month of 2005. This figure was down from 19,038 car registrations recorded in November, and was also lower than the 18,321 cars registered in December 2004. The annual average growth rate in the number of car registrations was 0.7% for the year ended December 2005.



Source: Real Estate Institute of New Zealand

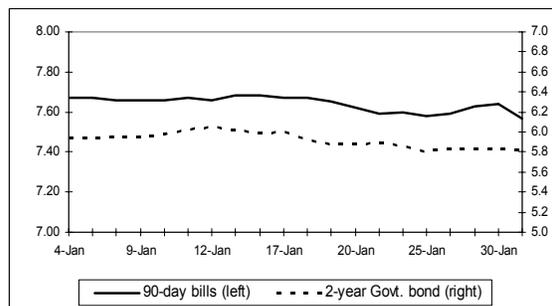
There were 6,906 house sales recorded in December compared with 9,357 recorded in November 2005. Comparatively, there were 8,377 house sales recorded in December 2004. The annual average percentage change in the number of residential house sales was -2.3% for the year ended December 2005.



Source: Business Statistics Section, Statistics New Zealand

National retail sales activity remained buoyant in November 2005. The value of sales totalled \$5,110.6 million during the month, up from \$4,895.5 million in October, and an increase of \$267.1 million (or 5.5%) compared to November 2004. The annual average growth rate in the value of national retail sales was 6.7% for the year to November 2005.

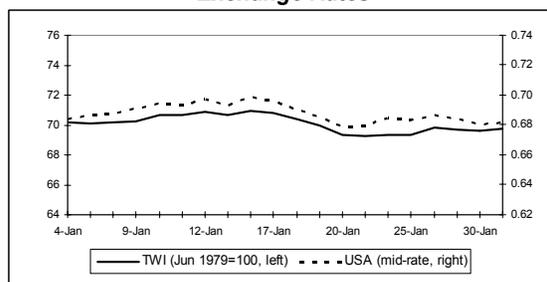
### Interest Rates



Source: Reserve Bank of New Zealand

The statement released by the RBNZ in January 2006 indicated the end of monetary policy tightening for the current economic cycle. Consequently, wholesale interest rates fell. By the end of the month, 90-day bill rates had fallen to 7.57%.

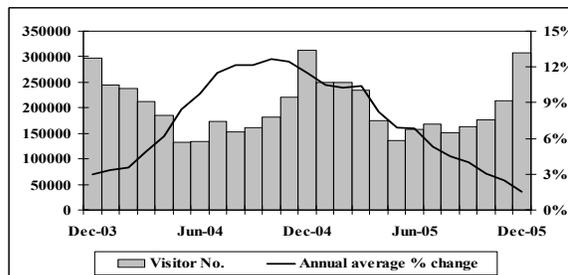
### Exchange Rates



Source: Reserve Bank of New Zealand

The value of New Zealand dollar continued to depreciate against the value of our major trading partners' currencies during the first half of January 2006. However, the Kiwi dollar stabilised in the second half of January. By the end of the month the trade-weighted index stood at 69.8 points.

### International Arrivals



Source: Statistics New Zealand

December is a peak season for the New Zealand's international tourism market. This was true for December 2005 when 307,100 short-term overseas tourists entered the country. Visitor numbers decreased by 5,957 (or 1.9%) on the number recorded in December 2004. The annual average growth rate in the number of international visitor arrivals to New Zealand was 1.5% for the year to December 2005.

### Summary

Following flat GDP growth in the third quarter of 2005, the latest CPI figures suggest that inflation is beginning to abate. According to the New Zealand Institute of Economic and Research [NZIER], business confidence fell in the December 2005 quarter. A net 61% of firms expected general economic environment to deteriorate

over the next six months. This is nearly double the number of firms who took a similar view in the previous quarterly NZIER opinion survey. This result was the most pessimistic since the March quarter of 1986.

The manufacturing sector was the most affected with a net 69% of firms expressing a negative opinion. Merchants were the least negative with a net 51% of firms feeling dismayed about the state of the economy compared with a net 26% who expressed a negative opinion in the September quarterly survey.

Firms' investment intentions decreased from a net +3% in the previous survey to a net -15% in the latest survey. While firms are having difficulty finding employees, the ease at which they are able to find labour has improved. A net 33% of firms in the December quarter of 2005 reported having difficulty finding skilled labour compared with a net 61% in the same quarter last year. For unskilled labour a net 17% of firms had difficulty versus a net 40% in the December quarter of 2004. A net 4% of firms intend to reduce staff over the next three months whilst a net 5% have increased staff over the last three months.

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