# NEW ZEALAND ECONOMIC UPDATE

## February 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.

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### Labour Market Has Started to Ease

Statistics New Zealand [SNZ] released the December 2005 quarter Household Labour Force Survey [HLFS] results in February 2006. According to the HLFS, the level of seasonally adjusted employment decreased by 1,000 (or 0.1%) over the quarter. Unemployment dropped by 2,000 (or 1.9%) over the same period. The unemployment rate in the December quarter of 2005 is estimated to be 3.6%. On an annual basis, there was an increase of 31,000 (or 1.5%) in the number of people employed.

Underlying the latest HLFS results are a decrease of 0.6% in full-time employment (the first fall in four years) and a growth of 2.4% in part-time employment. While employment has been increasing on an annual basis since the March 1999 quarter, the annual growth rate in employment for the December 2005 quarter was the lowest rate achieved over the past three years, and was much lower than the 3.6% that occurred in the previous quarter.

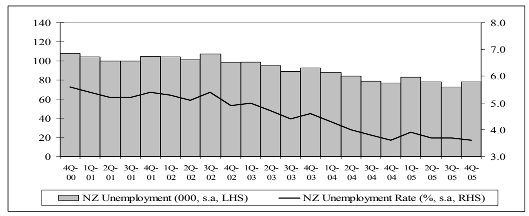
The number of males employed increased by 6,000 (or 0.5%) over the December quarter while the level of females employed moved in the opposite direction, with a fall of 7,000 (or 0.7%) woman employed. A breakdown of the data by Industry reveals that the service sector remained the key driver of job growth, while manufacturing and the primary industries were squeezed by the strong New Zealand dollar. There were job increases of nearly 34,000 in the service sector compared with a small increase of 2,000 in the primary sector over the December quarter of 2005.

In the December quarter employment in the manufacturing industry fell by 9,000. Consistent with a softer job market, the total number of actual working hours per week has fallen by 1.5%. There has been no annual growth in the number of hours worked per week.

During the December quarter of 2005, the number of people unemployed fell by 2,000 (or 1.9%) to 78,000. This can be attributed to a fall of 4.5% and an increase of 0.5% in male and female unemployment respectively over the quarter.

In the December quarter of 2005, the labour force participation rate decreased by 0.3 percentage points [pp] to 67.8%, largely caused by a fall in the female participation rate (0.6pp↓).

Overall, the December 2005 HLFS results suggest that the New Zealand economy has started to lose momentum.




*Source: HLFS, Statistics NZ*

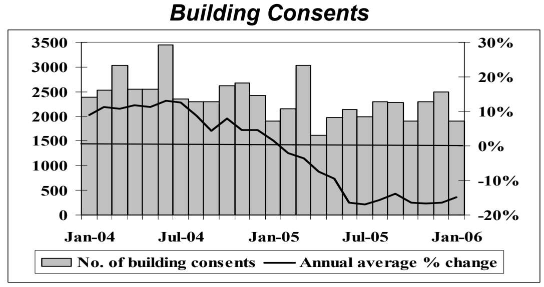
### RBNZ Held the OCR in March 2006

As widely expected, the Reserve Bank of New Zealand [RBNZ] left the Official Cash Rate [OCR] unchanged at 7.25% in March 2006. However, compared with the previous Monetary Policy Statement [MPS], the tone in the latest MPS was mild, suggesting a neutral stance has been adopted.

The RBNZ acknowledged recent weak economic indicators by revising down its GDP forecast from 3.0% to 2.5% for the March 2006 year, and from 2.0% to 1.5% for the year after. The RBNZ also lowered its medium term inflation forecast to an average of 2.5% for the March 2007 and 2008 years. As a result, the RBNZ stated “we do not expect to raise interest rates again this cycle”, but also added “we do not expect to be in a position to ease policy this year”.

### Key Indicator Trends

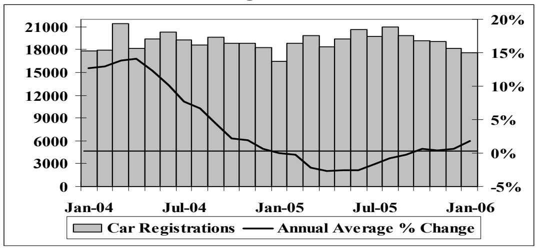
***Building Consents***




*Source: Dept of Statistics Building Surveys and Vitals Section*

A total of 1,900 consents were issued for new dwellings in New Zealand during the first month of 2006. These were worth around $413.8 million. This was the lowest number of consents issued over the past 12 months, and was only two greater than the 1,898 issued in January 2005. The annual average growth rate in the number of new building consents issued in New Zealand was -15% for the year ended January 2006.

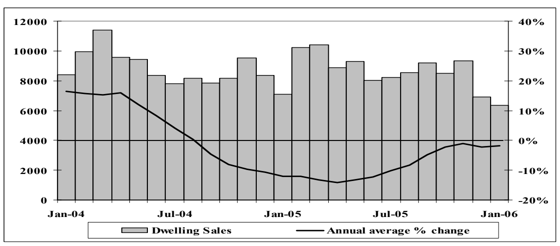
### *Car Registrations*




*Source: Land Transport Safety Authority*

The number of car registrations recorded in New Zealand has continued to ease in recent months. There were 17,604 cars (including both new and ex-overseas car types) registered in January 2006, down from 18,139 recorded in December 2005, but greater than the 16,428 registered in January 2005. The annual average growth rate in the number of car registrations recorded in New Zealand was 1.8% for the year to January 2006.

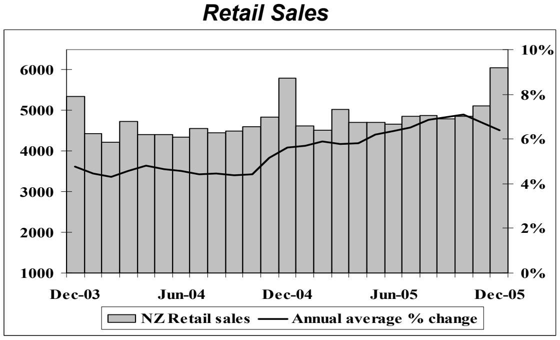
### *Residential Real Estate Sales*




*Source: Real Estate Institute of New Zealand*

The residential real estate market remained flat in January 2006. The volume of real estate sales decreased to 6,360 during the month, which was the lowest level recorded in January months since 2001. The median sale price reached a high of $300,000 in January 2006. The annual average growth rate in the volume of real estate sales in New Zealand was -1.7% for the year to January 2006.

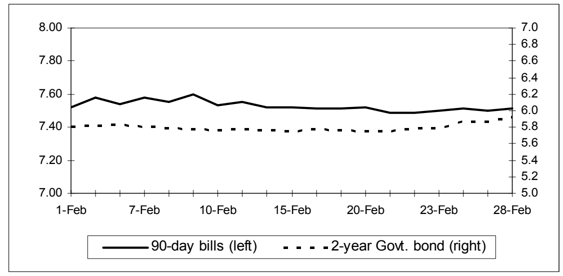
### *Retail Sales*




*Source: Business Statistics Section, Statistics New Zealand*

In December 2005 for the first time in New Zealand's history, monthly retail sales exceeded $6,000 million. The annual average growth rate in the value of national retail sales was 6.4% for the year to December 2005.

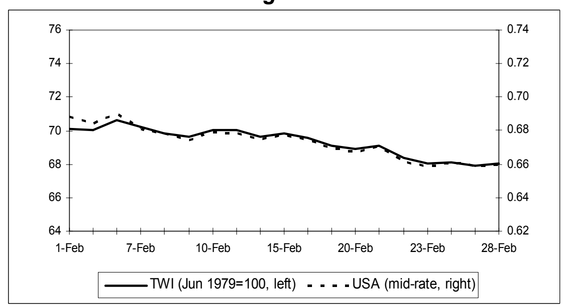
### *Interest Rates*




*Source: Reserve Bank of New Zealand*

New Zealand's wholesale interest rate market eased during the first two weeks of February 2006, but stabilised afterwards. By the end of the month, 90-day bill rates stood at 7.51%.

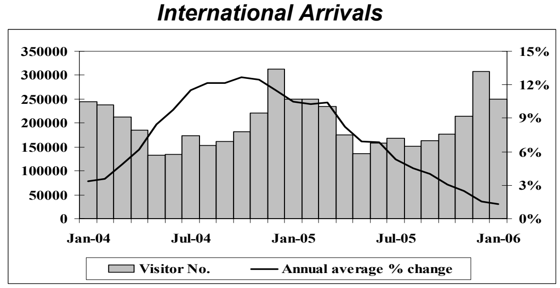
### *Exchange Rates*




*Source: Reserve Bank of New Zealand*

It was clear that a downward trend was developing in the New Zealand exchange rate market, as the New Zealand economy slowed in recent months. By the end of the month, $1.00 NZ traded against $0.66 US, and the trade-weighted index [TWI] settled at 68 points.

### *International Arrivals*




*Source: Statistics New Zealand*

Following a boom in December, New Zealand's international tourism industry eased in January 2006. There was a total of 250,554 short-term overseas arrivals to New Zealand during the month, down from a high of 307,100 recorded in December 2005, but marginally higher than the 249,933 recorded in January 2005. The annual average growth rate in the number of visitor arrivals to New Zealand was 1.3% for the year ended January 2006.

**Summary**

Weak labour market results, a cooling down of residential building and housing markets along with the RBNZ's adoption of a relatively neutral monetary policy stance, all suggest that New Zealand is entering a period of slow economic growth.

According to the latest National Bank [NB] business confidence survey, confidence was low in February 2006. A net 62% of firms expected that general economic conditions will deteriorate over the coming year. This result was similar to the business opinion expressed in the last NB survey where a net 61.7% of firms were pessimistic. The gloomy mood was spread across all New Zealand's industries. The agriculture sector was the most affected with a net 80% who were pessimistic. The construction sector was the least pessimistic group with a net 54% expecting general business conditions to deteriorate in 12 months' time.

A net 4.4% of firms expected a fall in their own business activity, down from a net 2.4% who possessed a similar negative opinion in December 2005.

Investment intentions have fallen into negative territory, with only a net 0.2% of businesses expecting to increase investment in the 12 months ahead. Employment intentions also declined with a net 8.8% of firms expecting to decrease staff levels over the next 12 months. Firms' expectations of inflation in 12 months' time have fallen from 3.4% in the NB's December 2005 confidence survey to 3.1% in the February 2006 survey.