



NEW ZEALAND ECONOMIC UPDATE

March 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

New Zealand's GDP Growth has Slowed

Growth in the New Zealand economy has slowed. Gross Domestic Product (GDP) shrank by 0.1% over the December 2005 quarter and was below the expectations of 0.2% and 0.4% held by the market and the Reserve Bank of New Zealand (RBNZ) respectively. GDP growth for the year ended December 2005 was 2.2% whereas growth for the year ended December 2004 was 4.3%. Key drivers of the slowdown in GDP growth were a decline in activity in the service sector, tight monetary conditions (i.e. high interest rates) and the high value of the New Zealand dollar.

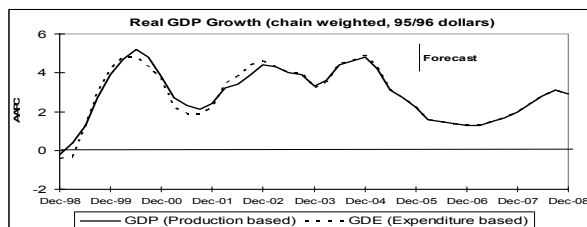
Wholesale trade has fallen 2.0% over the past three months, partly due to a decline in motor vehicle wholesaling. Retail sales fell 0.5%, but increased by 5.2% compared to the volume of sales recorded in the December 2004 quarter. Transport and communication services decreased by 1.5% over the quarter, largely caused by low volumes of domestic and international air travel.

Activity in the finance, insurance and business services group was flat (only up 0.3%) over the past quarter. The manufacturing industries also played a role in dragging down quarterly GDP growth. The major contributors in this group were petroleum, chemicals and plastics production (3.6%↓), machinery and equipment output (1.5%↓), metal product (1.5%↓) and food, beverage and tobacco manufacturing (0.5%↓). Utility groups fell by 1.2% over the quarter.

While electricity generation rose by 1.1%, its "value added" decreased by 0.7%. This result was mostly due to a shift from less expensive hydro to more expensive thermal generation. The volume of gas supplied fell by 10.5%, reflecting a movement from gas to coal fuelled production.

The construction sector rose by 3.2% over the quarter largely led by an increase of 3.7% in the residential building industry. The residential building sector's contribution to quarterly GDP growth was partly offset by a decrease of 0.2% in non-residential construction.

Other sectors which showed positive quarterly growth included primary industries (0.9%↑), government administration and defence (3.7%↑), and personal and community services (0.7%↑). Expenditure based GDP statistics show that domestic demand has fallen by 1.9%, but export volumes were up 1.6%. In summary, the latest GDP figures confirm that growth in the economy has slowed.



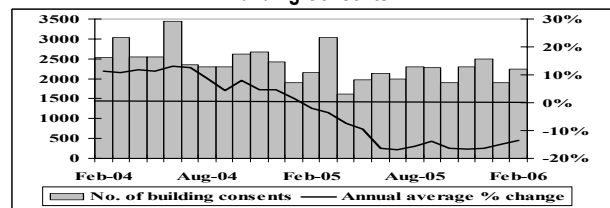
Source: Statistics New Zealand and New Zealand Institute of Economic Research

Current Account Deficit Remained High

According to Statistics New Zealand, the Current Account Deficit (CAD) was \$13.7 billion for the year ended December 2005 (8.9% of GDP). The strong New Zealand currency over 2005 adversely affected manufacturing exports, however a recovery of pastoral exports in the December 2005 quarter helped the CAD improve. The services balance, while remaining in surplus (\$142 million), has nearly halved from the levels (\$278 million) recorded in the December 2004 quarter. This result is not surprising given the slowdown in international tourism and student arrivals. The investment income deficit worsened by \$182 million, falling to \$2,828 million over the quarter. This was a result of increased dividends paid to foreign owned companies.

Key Indicator Trends

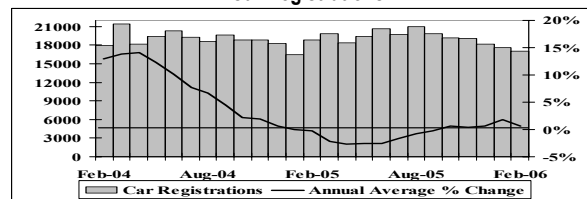
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

The national dwelling construction industry improved in February 2006. There were a total of 2,237 new consents issued for dwellings during the month. These were valued at around \$469 million. The number of consents issued was better than the 1,900 and 2,145 consents issued in January 2006 and February 2005 respectively. The annual average growth rate in the number of new building consents issued in New Zealand was -13.6% for the year to February 2006.

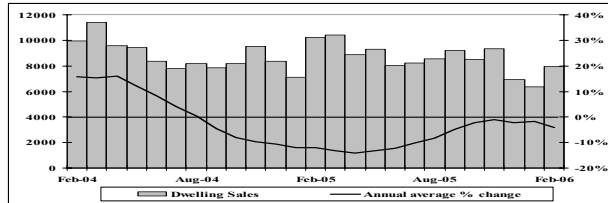
Car Registrations



Source: Land Transport Safety Authority

There were 17,052 cars (including both new and ex-overseas car types) registered in January 2006. This number was 552 less than January's level, and was down 3.1% on the number recorded in February 2005. The annual average growth rate in the number of car registrations recorded in New Zealand was 0.6% for the year ended February 2006.

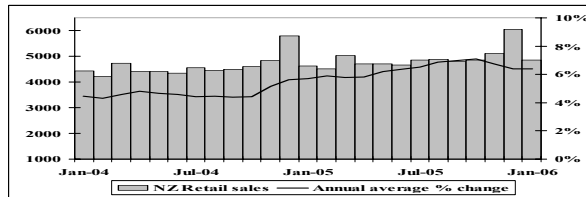
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The volume of house sales increased from 6,360 in January 2006 to 7,930 in February 2006. Comparatively, in February 2005, 10,230 homes changed hands. The median sale price in February 2006 was \$295,000. This was a decrease of \$5,000 from January's median sale price. The annual average growth rate in the volume of house sales in New Zealand was -4.1% for the year ended February 2006.

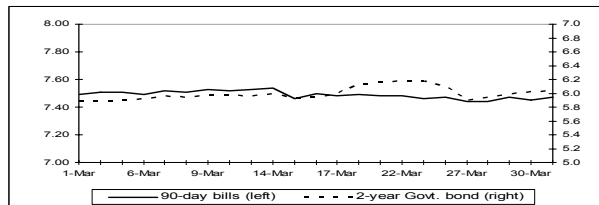
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

Growth in the value of retail sales has slowed. The monthly value of sales totalled \$4,849.8 million in January 2006, down from a high of \$6,059.8 million recorded in December 2005. Comparatively, the value of national retail sales in January 2005 was \$4,624.8 million. The annual average growth rate in the value of national retail sales was 6.4% for the year to January 2006.

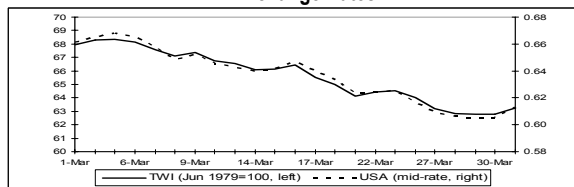
Interest Rates



Source: Reserve Bank of New Zealand

The wholesale interest rate market started to wane in March, suggesting that the Reserve Bank of New Zealand (RBNZ) may cut the Official Cash Rate (OCR) as early as mid 2006. At the end of March 90-day bill rates stood at 7.47%.

Exchange Rates

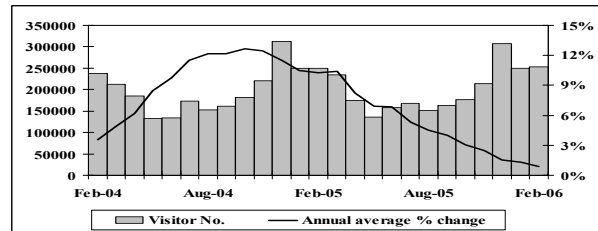


Source: Reserve Bank of New Zealand

New Zealand's currency sharply depreciated in March 2006. This was in line with market expectations that took into account the dismal December quarter GDP growth statistics and the huge current account deficit. By

the end of the month NZ \$1.00 was worth around US \$0.66, and the Trade-Weighted Index (TWI) decreased to 63.3 points.

International Arrivals



Source: Statistics New Zealand

A total of 252,431 overseas visitors entered New Zealand during February 2006. This number was slightly above the 250,554 visitor arrivals recorded a month earlier and the 250,070 arrivals recorded in February 2005. The annual average growth rate in the number of international visitor arrivals to New Zealand was 0.9%. This result was the combination of increases in the number of Australian arrivals and a decrease in the number of short-term Asian visitors.

Summary

Recent developments in the New Zealand economy are a worsening of the current account deficit, an easing in the labour market, and the depreciation of the Kiwi dollar.

According to the National Bank's (NB) monthly business confidence survey, the majority of firms were pessimistic about the economy's outlook for the 12 months ahead. For March 2006 business confidence remained subdued, with a net 51% of firms expecting general business conditions to deteriorate in 12 months time. While this result was an improvement from a net 62% of firms who took a gloomy view in the NB's February survey, pessimism was widespread. Farmers were the most pessimistic, with a net 74% expecting business conditions to worsen. A net 53% of manufacturers expected that general business conditions will have deteriorated in 12 months time. A net 51% of retailers were pessimistic about conditions ahead while the construction sector was the least pessimistic group with a net 36% of firms possessing a negative opinion.

Firms outlook about their own business was less negative in the latest NB survey. A net 5% of firms expected to increase their own business activity over the next 12 months. This figure was up from a net 4.4% who took a contrary viewpoint in the previous NB confidence survey.

The Westpac McDermott confidence survey revealed that consumer confidence has fallen over the past quarter. The Confidence Index fell from 110.1 in the December quarter to 109 in the first quarter of 2006 (>100 indicates more optimists than pessimists).

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