



NEW ZEALAND ECONOMIC UPDATE

May 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

NZ Labour Market Remained Buoyant

Statistics New Zealand released its March 2006 quarter Household Labour Force Survey (HLFS) results in mid May 2006. According to HLFS, the job market remained strong. On a seasonally adjusted basis, employment grew by 23,000 (or 1.1%) compared to the December 2005 quarter. This result was well above the 0.2% expected by the market. Total employment has risen to 2,108,000 due to an annual growth of 53,000 (or 2.6%) over the year to March 2006.

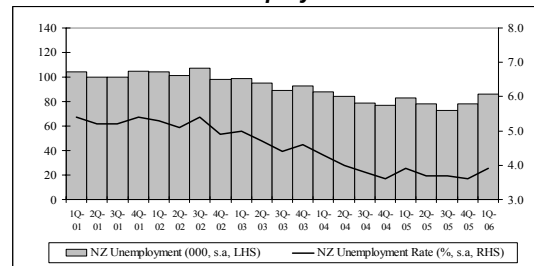
The quarterly employment growth mostly came from an improvement in full-time employment, which added 22,000 more jobs. However, the level of part-time employment was static with the level recorded similar to that recorded in the previous quarter.

Both male and female employment have increased over the past three months, with the former gaining 17,000 (1.8 %↑) and the latter, 5,000 (0.5 %↑). On an annual basis, female employment rose by 2.9%, and the number of males employed increased by 2.4%.

A sectoral breakdown showed that the service and the construction sectors were the driving forces behind the upward quarterly percentage change. The survey data showed that 15,000 more jobs were provided by service related industries, while 9,000 more jobs were due to the building industry. However, there was a decrease (on an annual basis) in employment in the transport, storage and communication groups.

The working age population (seasonally unadjusted) increased by 14,300 to reach 3,202,800 in the March 2006 quarter. Part of the growth was driven by a 3,924 net gain in permanent and long-term migration over the quarter. The labour force participation rate increased by 0.6 percentage points to reach 68.5%, which was the highest rate ever recorded by the HLFS. Mostly due to increased participation the unemployment rate rose from 3.6% as at the December 2005 quarter to 3.9% as at the March 2006 quarter.

Unemployment



Source: RBNZ and SNZ

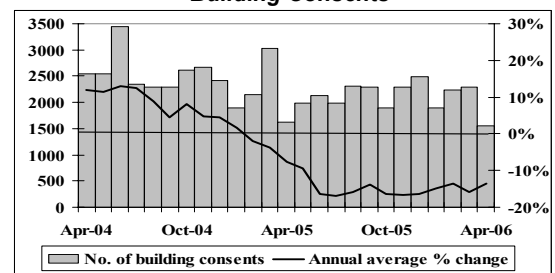
Brief Review of NZ Budget 2006

The content of the May 2006 budget was no surprise. As widely expected, health, tertiary education, transport and family support were the main beneficiaries. A total of \$2.2 billion in 2006/07 has been allocated to new operating expenditure.

This will increase to \$2.5 billion over the next four years. Capital expenditure will increase by \$2.7 billion over the next four years, with \$1.3 billion allocated to 2006/07. New funding was directed to three priorities according to the Treasury; economic transformation, families, and national identity. New investment in transport and infrastructure totalled \$1.1 billion, while tertiary education will receive a boost of \$1.1 billion over the next four years. Health will receive \$3 billion and the Working for Families programme will receive \$1.9 billion. The surprising element, if any, was the cut in debt programme, from \$3 billion annually (in the half year fiscal update) to around \$2.5 billion.

Key Indicator Trends

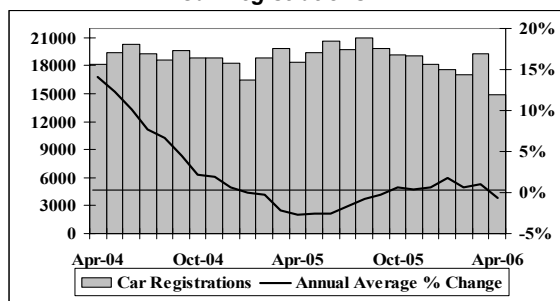
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

Activity in the national residential building market declined in April 2006. Only 1,558 consents were issued for new dwellings during the month, valued at around \$358.8 million. This was the lowest level of consents recorded over the past four years. The annual average growth rate in the number of consents issued in New Zealand was negative 13.5% for the year ended April 2006.

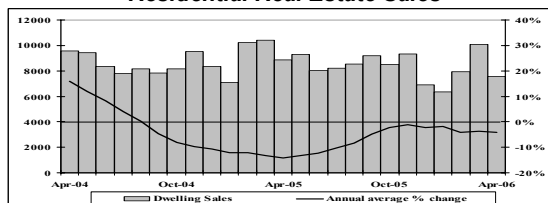
Car Registrations



Source: Land Transport Safety Authority

A boom in car registrations nationwide in March 2006 seemed to be short-lived. Only 14,914 cars (including both new and ex-overseas car types) were registered during April 2006, the lowest level recorded since February 2001. The annual average growth rate in the number of car registrations recorded in New Zealand was negative 0.6% for the year ended April 2006.

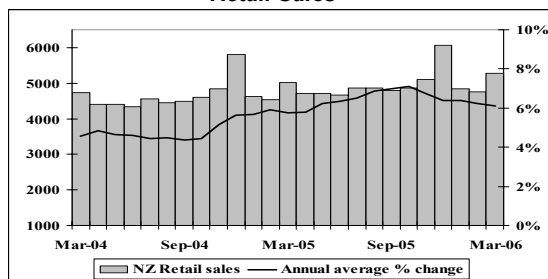
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The New Zealand housing market has become quite volatile over the past few months. Following strong sales of 10,094 recorded in March 2006, the volume of sales decreased by 2,518 to 7,576 in April 2006. This was the third lowest level recorded over the past 12 months. The annual average growth rate in the number of houses sold in New Zealand was -4.1% for the year ended April 2006.

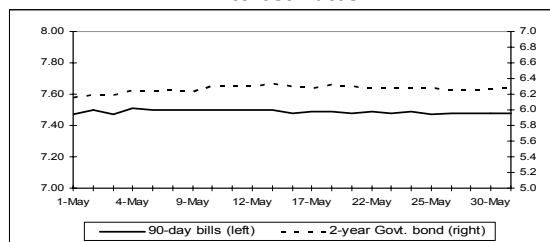
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

Stronger activity pushed up national retail sales in March 2006. Total sales reached \$5,277.6 million during the month, well above the \$4,748.9 million recorded in February 2006 and the \$5,023.6 million in March 2005. The annual average growth rate in the value of retail sales recorded in New Zealand was 6.1% for the year ended March 2006.

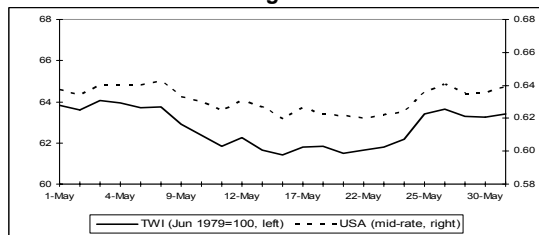
Interest Rates



Source: Reserve Bank of New Zealand

Wholesale interest rates were stable in New Zealand in May 2006, reflecting the RBNZ's 'no change policy' for the Official Cash Rate in the short-term. By the end of the May 2006 the 90-day bill rate stood at 7.48%.

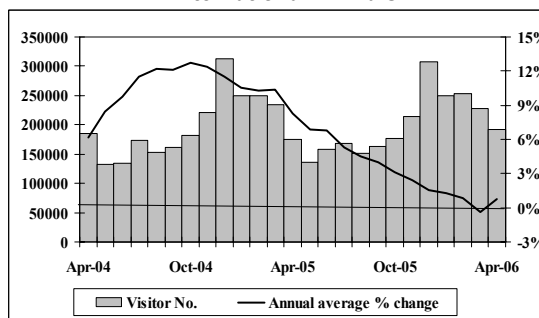
Exchange Rates



Source: Reserve Bank of New Zealand

As the economy continued to slow the New Zealand dollar depreciated against its trading partners' currencies dollar over May. However, the Kiwi dollar strengthened in the last week of May. This saw NZ \$1.00 trade at around US \$0.64. The Trade-Weighted Index (TWI) stood at 63.4 points by the end of the month.

International Arrivals



Source: Statistics New Zealand

There was a total of 191,648 international visitors to New Zealand during April 2006, down from 226,966 arrivals recorded in March 2006, but up by 16,891 (or 9.7%) on the number of arrivals recorded for April 2005. The annual average growth rate in the number of visitor arrivals to New Zealand was 0.7% for the year to April 2006.

Summary

While the national job market remained solid in the March 2006 quarter HLFS results, other key indicators continued their easing trend. The weak level of economic activity was mirrored by the National Bank's Regional Trends (RT) report for the March 2006 quarter. According to the RT eight regions recorded a rise in business activity, while six regions showed a decrease. Otago led the country, with an increase of 1.5% in business activity over the quarter. In contrast,

the Bay of Plenty registered the largest fall in activity (1.1 %↓) among 14 regions over the same period.

The National Bank's (NB) latest Business Confidence Survey showed that a net 31% of firms expected the general economic conditions to deteriorate over the coming year. All sectors took a pessimistic view, with agriculture the most affected followed by service

industries, builders, retailers and manufacturers. While firms were not particularly confident about their business future, optimists nevertheless outnumbered pessimists by 10%. Other positive factors in the economy are a high level of retail activity and an export sector that has started to rebound on the back of a lower valued New Zealand dollar.

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