



NEW ZEALAND ECONOMIC UPDATE

June 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

Moderate GDP Growth

In contrast to a fall of 0.1% that occurred over the December 2005 quarter, Gross Domestic Product (GDP) increased 0.7% over the March 2006 quarter. This result was in line with market expectations, but was slightly better than the 0.5% expected by the Reserve Bank of New Zealand (RBNZ). Annual GDP increased by 2.2% for the year ended March 2006, down from the 3.7% growth recorded for the March 2005 year.

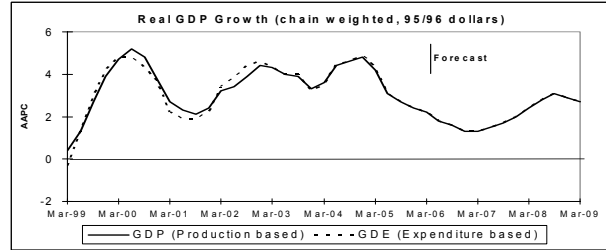
Ten of out of 11 main industry sectors recorded growth over the quarter. The service industries grew by 0.9% and remained the driving force behind the growth in GDP. Driven by a 2.2% growth in the finance industry, activity in the finance, insurance and business services group grew by 0.7% over the past three months. This area made the biggest contribution to the services sector as a whole. Personal and community services helped by strong activity in cultural and recreational services (+3.9%↑) also showed robust growth, up 1.5% quarterly and 2.3% for the March 2006 year. Thanks to the central government's role (+3.9%↑), government administration and defence rose 3.2% in the first quarter and a massive 12% over the year ended March 2006.

Primary industries grew by 1.3% over the March 2006 quarter. Key drivers of growth were agricultural production (+1.5%↑) and mining (+6.2%↑), together with growth in dairy farming (+1.7%↑) and wool output (+5.6%↑). However, quarterly percentage decreases of 15.3% in fishing and 0.4% in forestry and logging partly offset the positive trend.

The goods-producing industries recorded moderate growth of 0.5% over the March 2006 quarter. Specifically, manufacturing production rose by 0.3%, a mixed result largely caused by increases in food, beverage and tobacco (+1.8%↑), with falls in metal, machinery and equipment products.

Driven by non-residential building, growth in construction was up 1.7% over the March 2006 quarter. Growth in the electricity, gas and water group decreased by 0.7% over the March 2006 quarter. A shift from hydro (cheaper cost) to thermal (more expensive cost) generation, dragged down the 'value added' within the industry and led to a decrease of 4.6% for the year to March 2006.

Overall, economic activity improved slightly over the March 2006 quarter which was in line with the RBNZ's expectations. Therefore, the RBNZ will likely continue with its neutral monetary policy stance in the short-term.



Source: NZIER and Statistics New Zealand

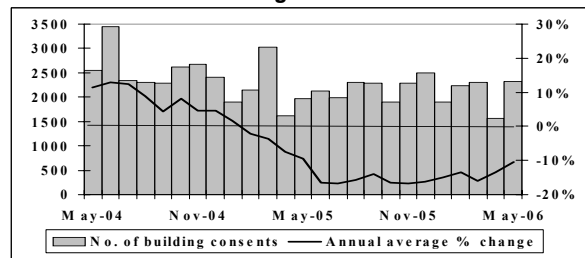
Current Account Deficit Worsened

New Zealand's Current Account Deficit (CAD) reached \$2,688 million (not seasonally adjusted) in March 2006, which was worse than the market median forecast of \$2,200 million. This pushed the annual CAD to \$14.5 billion which is equivalent to 9.3% of GDP. New Zealand now has the largest CAD since the mid-1970s and has the third largest CAD amongst OECD countries.

A worsening in the investment income balance, unfortunately cancelled out an improved net balance for goods and services exports. Lower income for New Zealand investments overseas and higher earnings for foreigners who have invested in New Zealand saw the investment deficit rise from 2,852 million in the December 2005 quarter to 3,093 million (partly due to increased interest payments) in the latest quarter. However, the balance in goods and services changed from a deficit of \$1,245 million in the December 2005 quarter to a surplus of \$332 million in the March 2006 quarter.

Key Indicator Trends

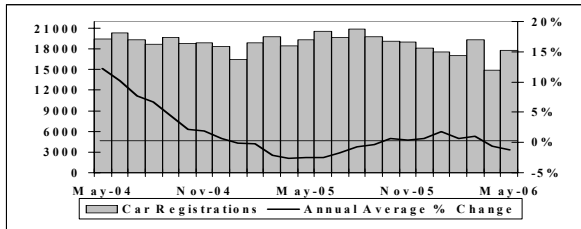
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

The activity in the New Zealand dwelling construction market strengthened in May 2006. Compared to April 2006, the number of consents issued for new dwellings increased from 1,558 to 2,328. The value of consents was \$548.4 million and was the second highest level recorded over the past 12 months. The annual average growth rate in the volume of consents issued in New Zealand increased from negative 13.5% for the year ended April 2006 to negative 10.6% for the year ended May 2006.

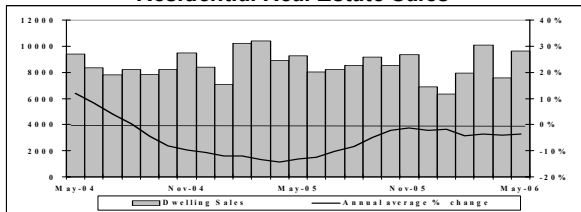
Car Registrations



Source: Land Transport Safety Authority

The number of national car registrations rebounded in May 2006. There were a total of 17,805 cars (including both new and ex-overseas types) registered during the month, up from 14,914 cars registered in April 2006, but still below the 19,377 car registrations recorded in May 2005. The annual average growth rate in the number of car registrations recorded for New Zealand was negative 1.3% for the year to May 2006.

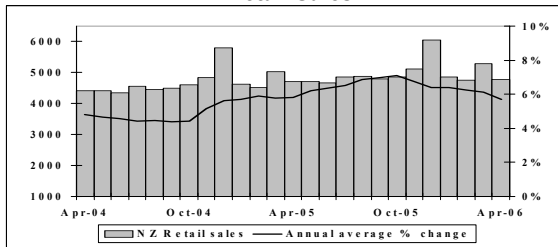
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

Activity in the residential property market improved nationwide in May 2006. The number of house sales reached 9,642 during the month, an increase of 2,066 on the number recorded in April 2006, and 3.9% greater compared to the number recorded in May 2005. The annual average growth rate in the volume of house sales in New Zealand was negative 3.7% for the year ended May 2006.

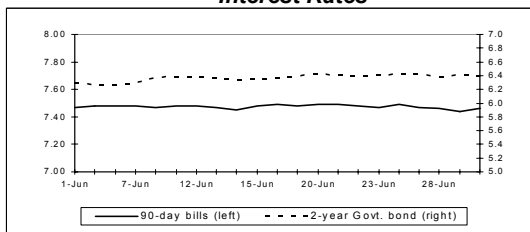
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

Following strong sales in March 2006, national retail sales activity levelled off in April 2006. The value of sales fell from \$5,277.6 million in March 2006 to \$4,781.8 million in April 2006. However, this figure was greater than the \$4,710.1 million of sales recorded for April 2005. The annual average growth rate in the value of retail sales recorded for New Zealand was 5.7% for the year ended April 2006.

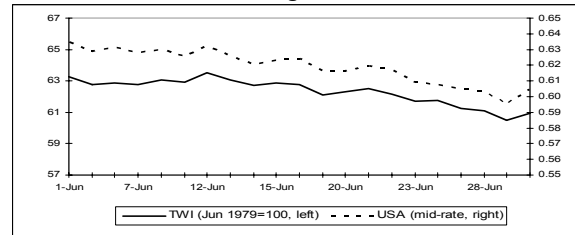
Interest Rates



Source: Reserve Bank of New Zealand

The New Zealand wholesale interest rate market remained stable in June 2006, with little response to the release of information concerning the modest GDP growth over the March 2006 quarter. This saw the 90-day bill rate settle at 7.46% by the end of the month (in comparison with 7.48% at the end of May 2006).

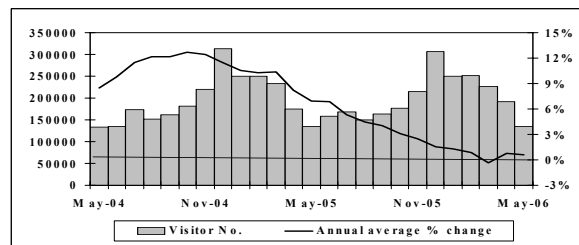
Exchange Rates



Source: Reserve Bank of New Zealand

Weaker than expected New Zealand trade data, together with a rise of 25 basis points in the US fund rate briefly drove the New Zealand dollar below US \$ 0.6 near the end of June 2006. However, by the end of the month the Trade-Weighted Index (TWI) stood at 61.0 points.

International Arrivals



Source: Statistics New Zealand

A total of 135,279 international short-term visitors entered New Zealand during May 2006, the lowest number recorded since July 2004 (largely due to a decrease in European visitor arrivals). The annual average growth rate in the number of international visitor arrivals to New Zealand was 0.6% for the year ended May 2006.

Summary

According to National Bank's (NB) Business Confidence Survey for June 2006, business confidence was largely unchanged in June 2006 compared to the level surveyed in May 2006. A net 32% of firms expected that the overall economic situation will deteriorate in 12 months time. A net of 46% of farmers surveyed expected that conditions will get worse. Not quite as pessimistic were builders (a net -33%), retailers (a net -32%) and manufacturers (a net -32%). The least pessimistic group of respondents were those in the services industries where a net 28% believed that conditions will be worse in 12 months time. When considering their own business activity firms were more optimistic with a net 17% expecting their level of activity (in terms of volume) to have increased in 12 months time.

The Westpac McDermott Miller Consumer Confidence Survey for the June 2006 quarter showed that consumer confidence has decreased from 109.3 as at March 2006 to 106.0 as at June 2006 (>100 indicates more optimists than pessimists). This was the lowest level of confidence surveyed since September 2000.

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.