

### 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 Tight

The Household Labour Force Survey (HLFS) published by Statistics New Zealand (SNZ) showed that the job market remained very buoyant in the June 2006 quarter. Key indicators including employment, total working hours, participation rate, and unemployment rate, all showed improvements.

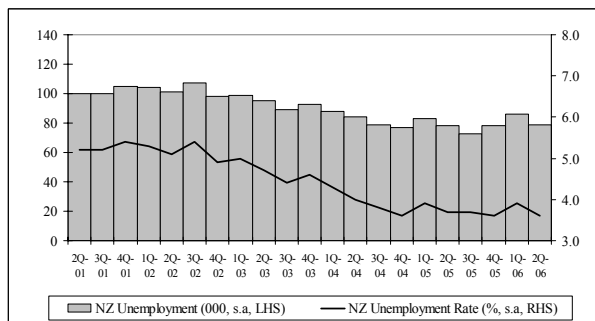
On a seasonally adjusted basis, employment rose by 22,000 (or 1.0%) to reach 2,129,000 over the quarter. This result was much stronger than the 0.1% growth expected by the market. On an annual basis, the number of people employed has increased by 63,000 (or 3.0%) for the year to June 2006. In fact, some 44,000 jobs were created over the first six months of 2006, outnumbering the 31,000 jobs created over 2005.

The quarterly growth was wholly caused by a 1.5% rise in full-time jobs, while part-time employment actually fell by 0.8%. The construction sector, property and business services, along with health and community services were the major sources of jobs. However, the transport and storage industries suffered job losses over the year.

Compared with a fall of 0.6% over the March 2006 quarter, the total number of hours worked per week increased by 1.4% in the June 2006 quarter. The labour force participation rate reached a record high in the survey with an increase of 0.3 percentage points over the quarter to reach 68.8%.

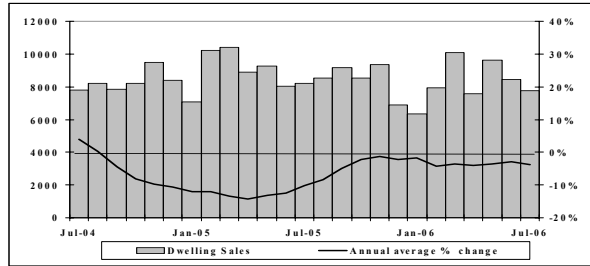
A decline in both male (4,000↓) and female (2,000↓) unemployment contributed to a fall of 7,000 (or 8.5%) in total unemployment over the quarter. This pulled unemployment rate down by 0.3 percentage points to 3.6%: the second lowest rate recorded since the HLFS began.

The unambiguous June 2006 quarter HLFS results reinforce the fact that the Reserve Bank of New Zealand (RBNZ) is unlikely to ease its monetary policy stance in the short term.



An easing trend developed in New Zealand car registrations in July 2006. Only 16,307 cars (including both new and ex-overseas car types) were registered during July 2006, the lowest number registered over the past three months. This represented a decrease of 17.2% compared to the number of registrations recorded in July 2005. The annual average growth rate in the number of car registrations recorded in New Zealand was negative 4.8% for the year ended July 2006.

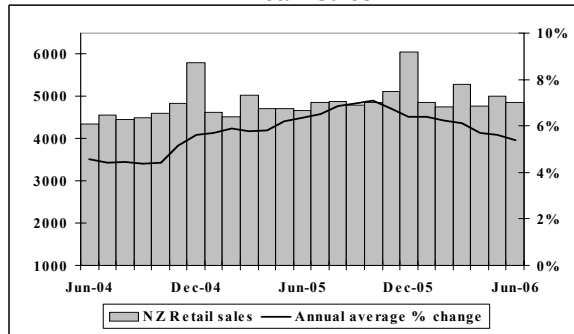
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

There were 7,771 dwellings sold during July 2006, well below the 8,428 houses sold in June 2006 and 8,213 sales recorded in July 2005. However, the median sale price for New Zealand reached a new of \$313,000 in July 2006. The annual average growth rate in the volume of New Zealand house sales was negative 3.8% for the year ended July 2006.

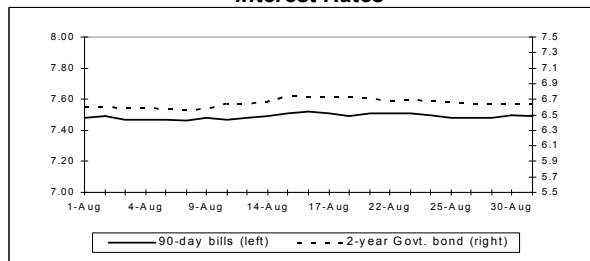
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

While the value of New Zealand retail sales dipped from \$5,011.6 recorded in May 2006 to \$4,863.8 million in June 2006, it increased by \$201.4 million (or 4.3%) compared to June 2005. The annual average growth rate in the value of New Zealand retail sales was 5.4% for the year ended June 2006.

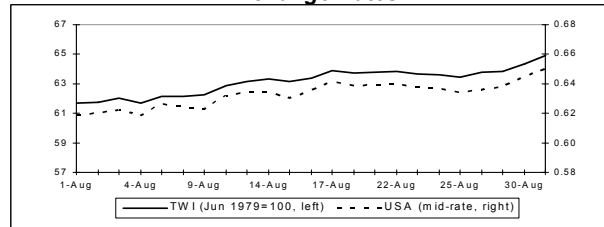
### Interest Rates



Source: Reserve Bank of New Zealand

The New Zealand wholesale interest rate market was stable during August 2006. However, the strong June 2006 quarter HLFS results saw short-term interest rates increase around six to seven basis points. By the end of the month, 90-day bill rates stood at 7.49%.

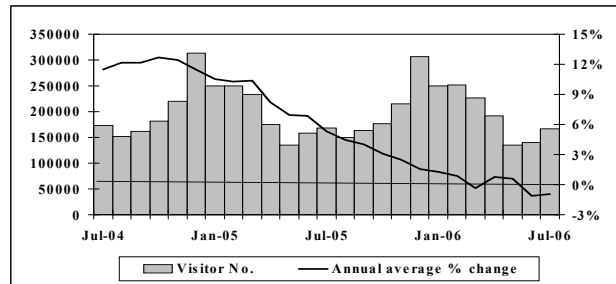
### Exchange Rates



Source: Reserve Bank of New Zealand

An upward trend was evident in New Zealand exchange rates in August 2006. Key drivers behind this phenomenon emanated from internal sources (ie., a buoyant labour market) and external sources (ie., a weak US dollar). By the end of the month, NZ \$1.0 dollar was worth around US \$0.65 (the highest level recorded over the past three months), and the Trade-Weighted Index (TWI) stood at 64.9 points.

### International Arrivals



Source: Statistics New Zealand

International visitor arrivals to New Zealand reached 166,970 in July 2006, well above the 139,891 recorded in the previous month. However, this number was lower than the 168,422 recorded in July 2005. The annual average growth rate in the number of visitor arrivals to New Zealand was negative 0.9% for the year ended July 2006.

### Summary

According to the New Zealand Institute of Economic Research (NZIER), real Gross Domestic Product (GDP) will slow from an annual average growth rate of 2.2% for the year ended March 2006 to 1.5% in the March 2007 year, followed by 1.8% in the year to March 2007. NZIER forecasts real GDP to rebound to 1.8% in the year ended March 2008.

The conversion of the New Zealand economy from being driven by domestic consumption to being export led is dependent on exchange rate depreciation. A relatively high level of interest rates at present is holding up the value of the New Zealand currency. This phenomenon is likely to continue over the second half of 2006 as the RBNZ is unlikely to ease its monetary policy stance in the short term. However, NZIER forecasts that the New Zealand currency will depreciate by 10.0% from its current levels by the March 2008 quarter.

The National Bank's (NB) Business Confidence Survey showed that in August 2006 a net 34% of firms expected that the overall economic conditions will deteriorate over the next 12 months, down from a net 31% who were pessimistic in July 2006. Farmers were by far the most negative group (-46%) followed by retailers (-38). Firms' optimism about their own level of business activity in 12 months' time has fallen sharply from a net 14.9% in the NB's July 2006 Business Confidence Survey to a net 6.0% in the August 2006 survey.

**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.