



# NEW ZEALAND ECONOMIC UPDATE

September 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

### Quarterly Economic Activity Was Modest

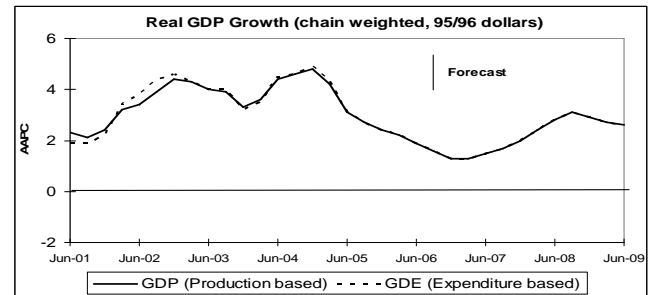
According to the Statistics New Zealand (SNZ), Gross Domestic Product (GDP) increased by 0.5% over the second Quarter of 2006. This was lower than the 0.8% growth recorded in the first quarter, but broadly in line with market expectations. On a year-on-year basis, New Zealand's economy has grown 1.9% between the year ended June 2005 and the year ended June 2006.

Growth has varied amongst sectors. Six out of eleven main groups recorded positive quarterly percentage changes, while the remaining five sectors recorded negative growth over the June 2006 quarter. Service industries remained the driving force behind quarterly growth in GDP.

Service Industries grew by 0.5% over the quarter, and 3.0% for the year to June 2006. This result was partially due to a 1.1% increase in the property and business services industry and a 1.2% growth in the finance sector. Personal and community services increased by 0.9%, driven by a 2.5% increase in the health and community group, but was moderated by a quarterly percentage decrease in education value added (VA). Growth in government administration and defence VA was 1.1% over the June 2006 quarter and 10.3% for the June 2006 year.

However, the transport and communication, wholesale trade, and retail and accommodation and restaurants groups all reported decreases of 0.4%. While growth in mining, and forestry and logging sectors has slowed, strong growth in dairy farming (up 2.4%), along with enhanced activity in agriculture and fishing pushed the overall level of activity in the primary sector up by 0.4%.

Activity in the goods-producing sectors was subdued in the June 2006 quarter. There was an increase of 0.8% in manufacturing but decreases of 5.5% and 6.5% in machinery and equipment and construction sub-sectors respectively. Collectively value-added by the goods-producing sectors decreased by 0.4% over the June 2006 quarter and 1.3% for the year ended June 2006. Overall, GDP data for the June 2006 quarter showed that the pace of economic growth has slowed.



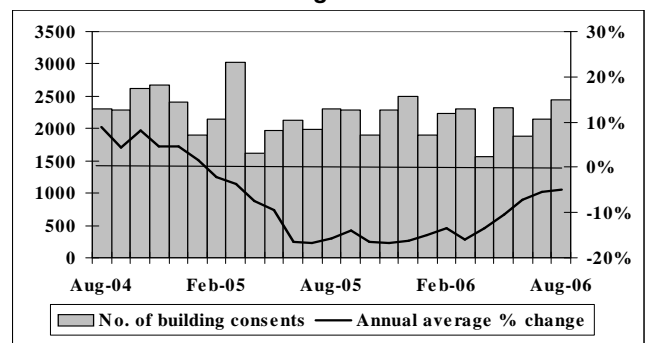
Source: NZIER and Statistics New Zealand

### Current Account Deficit Worsened

The 2006 June quarter Current Account Deficit (CAD) reached 43,084 million, which was significantly worse than expected. On an annual basis, the CAD has reached \$15.2 billion for the year ended June 2006 which is equivalent to 9.7% of GDP.

A worsening in the CAD gave the market a surprise. Dis-aggregation of the CAD's components showed that higher outflows of investment income were to blame for the deterioration. While the services balance had a deficit of \$205 million, the goods balance improved from a deficit of \$597 million in the first quarter to a surplus of \$110 million in the June 2006 quarter. However, higher profits earned by foreign owners of New Zealand firms, together with higher interest payments, caused the investment deficit to reach \$3,240.

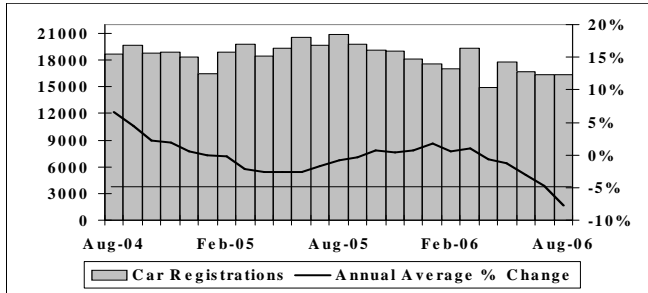
### Key Indicator Trends Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

The level of activity in the New Zealand residential building market has continued to improve over the past three months. August 2006 saw a total of 2,437 consents issued for new dwellings, worth \$573.5 million. This was the highest number of consents issued since January 2006, and was also greater than the 2,301 consents issued in August 2005. The annual average growth rate in the number of new building consents issued in New Zealand was negative 4.9% for the year to August 2006.

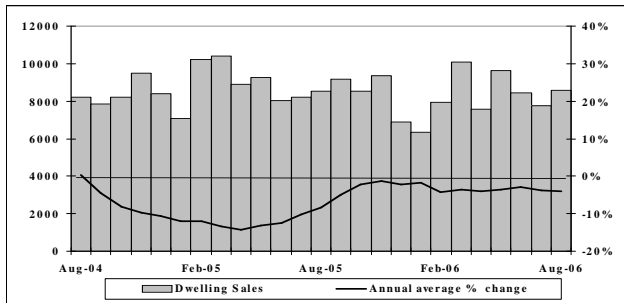
### Car Registrations



Source: Land Transport Safety Authority

There was a total of 16,333 cars (including new and ex-overseas car types) registered during August 2006, marginally above the 16,307 registered in July 2006. The number registered in August represented a 22.0% decrease compared to the number registered 12 months ago. The annual average growth rate in the number of cars registered in New Zealand was negative 7.7% for the year ended August 2006.

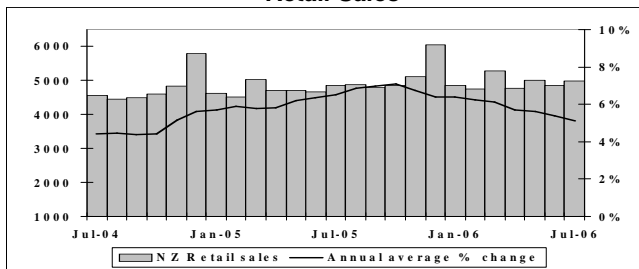
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

There were 8,562 dwellings sold during the month, with the median sale price reaching \$310,000. The volume of sales was higher than 7,771 and 8,537 recorded in July 2006 and August 2005, respectively. The annual average growth rate in the number of house sales in New Zealand was negative 4.1% for the year to August 2006.

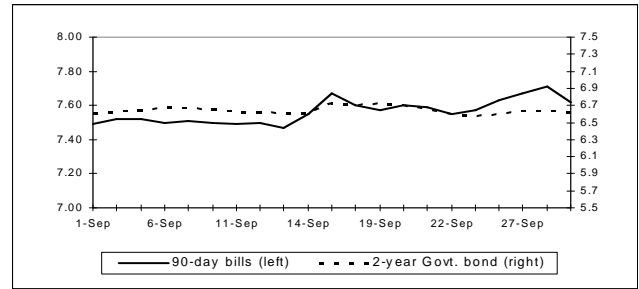
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The level of national retail activity strengthened in July 2006. The value of sales reached \$4,992.4 million during the month, an increase of \$128.6 million compared to June 2006, and an increase of 2.9% compared to July 2005. The annual average growth rate in the value of national retail sales was 5.1% for the year ended July 2006.

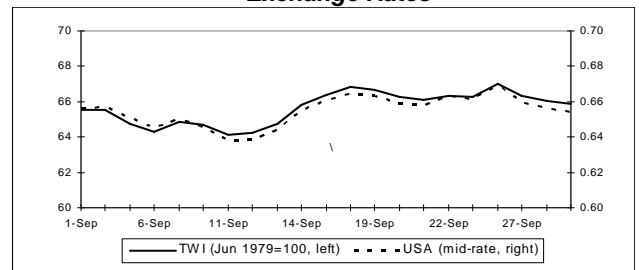
### Interest Rates



Source: Reserve Bank of New Zealand

The New Zealand wholesale interest rate market trended up solidly, following a more hawkish than expected Reserve Bank of New Zealand statement released in mid September. By the end of September the 90-day bill rate had retreated slightly and stood at 7.62%.

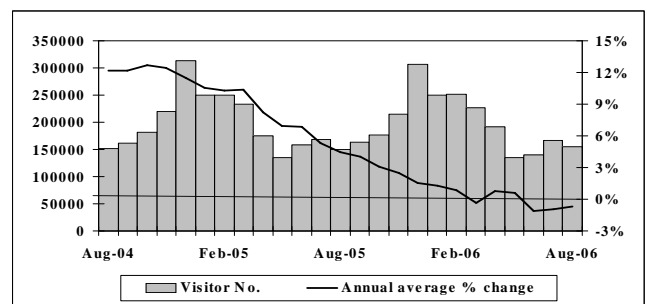
### Exchange Rates



Source: Reserve Bank of New Zealand

The possibility of further increases in interest rates indicated by the Reserve Bank of New Zealand, along with the release of weaker US housing and manufacturing data pushed New Zealand exchange rates higher in September 2006. However, worsening New Zealand CAD results acted to slow the Kiwi dollar appreciation. By the end of the month, NZ \$1.0 dollar was worth US \$ 0.654, and the Trade-Weighted Index (TWI) stood at 65.9 points.

### International Arrivals



Source: Statistics New Zealand

New Zealand international visitor arrivals decreased from 166,970 recorded in July 2006 to 155,700 recorded in August 2006. August's number of visitors was a 3.3% increase on the number recorded in August 2005. The annual average growth rate in the number of visitor arrivals to New Zealand was negative 0.7% for the year ended August 2006.

### Summary

A decrease in international crude oil prices resulted in New Zealand's petrol prices decreasing by around 20 cents per litre over the past two months. This encouraging news had a positive effect on the level of consumer and business confidence.

According to the Westpac McDermott Miller Survey, consumer confidence has increased to a 12 month high; standing at 111.7 points in the September 2006 quarter (>100 indicates more optimists than pessimists). Cheaper petrol prices, the Working for Families Scheme, and resilient dwelling and job markets were the likely driving forces behind this increase in consumer confidence.

Business confidence also improved in September 2006. The National Bank's September Business Confidence Survey indicated that a net 29% of firms expected general economic conditions to deteriorate in twelve months' time, up from a net 34% who took a pessimistic view in August 2006. Farmers were the most pessimistic group (a net negative 56%), while retailers were the least negative (a net 23%). Firms became more optimistic about their own business future in September with a net 15% expecting increased activity (by volume) in 12 months' time.

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