



NEW ZEALAND ECONOMIC UPDATE

October 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 CPI Growth has Softened

The Consumer Price Index (CPI) increased by 0.7% in the September 2006 quarter, which was slightly below the 0.8% expected by the Reserve Bank of New Zealand (RBNZ). This followed increases of 1.5% and 0.6% recorded in the first and the second quarters respectively. Annual inflation was 3.5% for the year to September 2006.

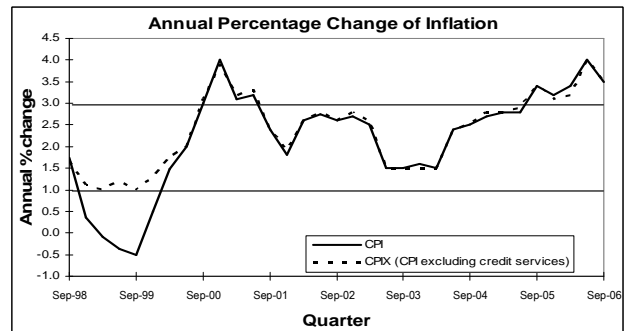
Six out of the 11 main groups recorded price increases over the September 2006 quarter while five groups recorded decreases. The magnitude of the upward quarterly price increases outweighed quarterly price decreases resulting in the quarterly percentage increase.

Price increases in non-tradables reached 1% over the September 2006 quarter and 4% on an annual basis. Prices in the housing sub-group increased by 1.9%, the greatest quarterly percentage increase recorded in this sub-group since December 2003. Price increases in non-tradables accounted for 3.81 points out of the 6.65 point increase in the CPI over the September 2006 quarter.

Price increases occurred in both local authority rates (6.8%↑) and in the construction and housing markets (2.1%↑). Pushed up by higher prices in vegetables (15.5%↑) and fruit (9.4%↑), the average price level in the food group increased by 2.0%. However, there was a decrease in prices in dairy products (3.1%↓) which partly offset the upward price pressure. Other categories that recorded quarterly price increases included alcohol and tobacco (1.6%↑), household contents (0.9%↑), education (0.4%↑), and miscellaneous goods and services (0.8%↑).

Most of the downward quarterly price decreases emanated from tradable inflation, especially in the transport group. Cheaper imported cars (4.6%↓), lower petrol prices (0.8%↓), and flat international airfares all worked together to drive prices in the transport group down by 1.2% over the September 2006 quarter. There were also small decreases in prices for apparel, recreation and health services.

Despite a slowdown in headline inflation over the September 2006 quarter, core inflation pressures remain. Therefore, there is no chance that the RBNZ will cut the Official Cash Rate (OCR) in the short-term.



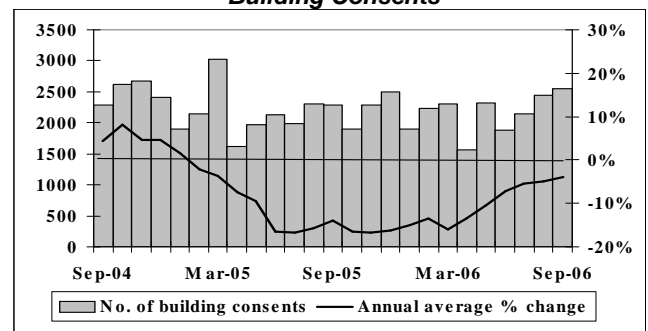
Source: Statistics New Zealand and the Reserve Bank of New Zealand

RBNZ Held the OCR at 7.25%

The RBNZ held the Official Cash Rate (OCR) at 7.25% in its latest review of monetary policy. A decrease in petrol prices will have downgraded consumers' short-run inflation expectations. However, as the RBNZ focuses on medium-term inflation, it will remain concerned about the steady upward CPI trend driven by a high level of capacity utilisation, a tight labour market, and strong housing market activity.

Key Indicator Trends

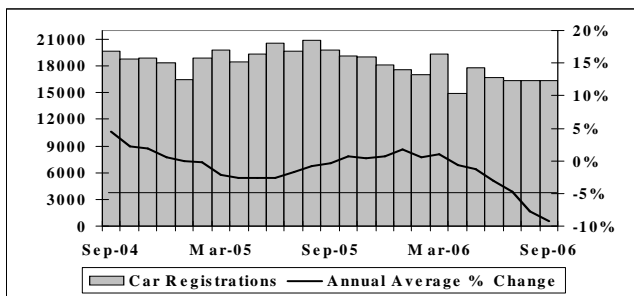
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

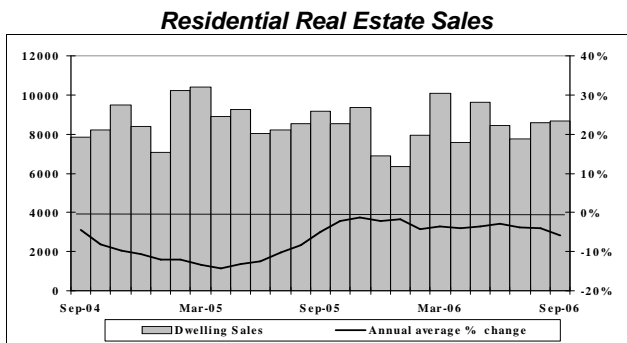
There were 2,545 consents issued for new dwellings during September 2006, exceeding a recent high of 2,437 consents issued in August 2006, and 2,283 consents issued in September 2005. The annual average growth rate in the number of new building consents issued in New Zealand was negative 3.9% for the year ended September 2006.

Car Registrations



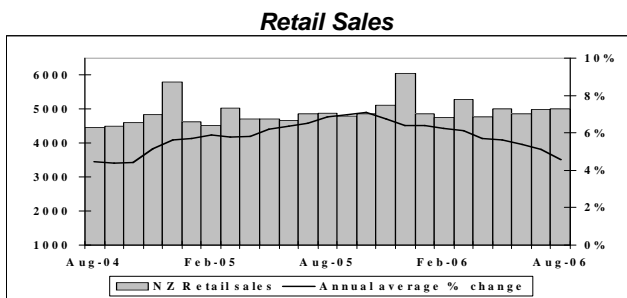
Source: Land Transport Safety Authority

There were 16,307, 16,333, and 16,370 cars (including both new and ex-overseas car types) registered in July, August and September 2006 respectively. All of these figures were less than the 19,816 car registrations recorded in September 2005. The annual average growth rate in the number of car registrations recorded in New Zealand was negative 9.3% for the year ended September 2006.



Source: Real Estate Institute of New Zealand

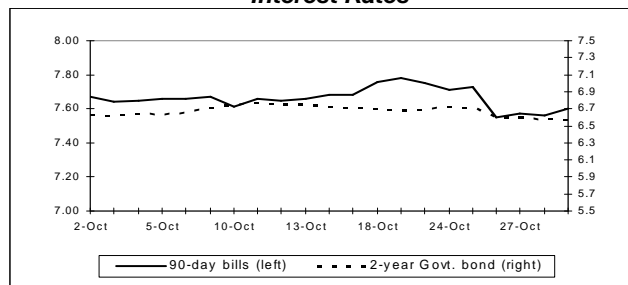
A total of 8,671 homes were sold in September 2006, an increase of 109 sales compared to August 2006, but less than 9,186 sales recorded in September 2005. The median sale price increased from \$310,000 recorded as at August 2006 to \$313,000 as at September 2006. The annual average growth rate in the volume of house sales in New Zealand was negative 5.7% for the year ended September 2006.



Source: Business Statistics Section, Statistics New Zealand

The level of activity in the New Zealand retail sales market was buoyant in August 2006. The value of sales increased from \$4,992.4 million recorded in July 2006 to \$5,014.4 million recorded in September 2006 which was also higher than the \$4,871.9 million of sales recorded in August 2005. The annual average growth rate in the value of New Zealand retail sales was 4.6% for the year ended August 2006.

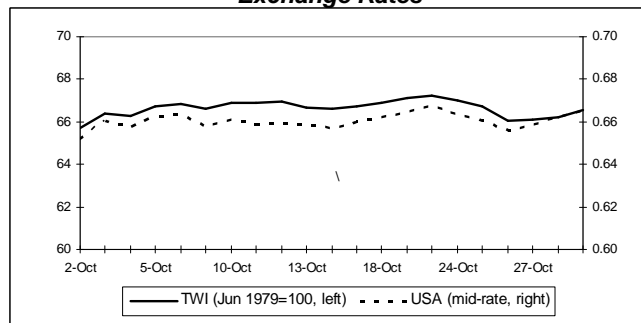
Interest Rates



Source: Reserve Bank of New Zealand

A steady upward trend in New Zealand's wholesale interest rates occurred over the first three weeks in October 2006. However, the upward trend in the 90-day bill rate ended with a 20 basis point drop initiated by the RBNZ leaving the OCR unchanged at 7.25% in its latest review of monetary policy. By the end of October 2006, the 90-day bill rate stood at 7.6%.

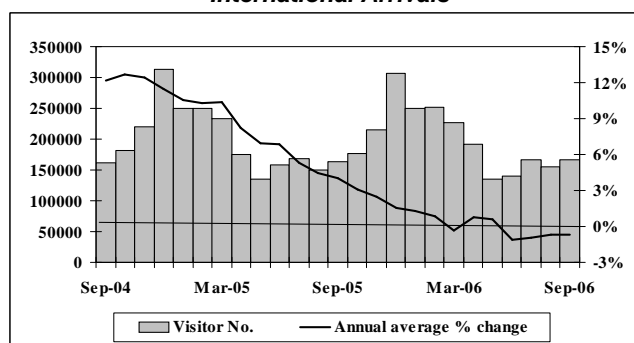
Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates appreciated for the first three weeks in October 2006, but depreciated shortly after the RBNZ held the OCR at 7.25%. However, the Kiwi dollar regained some ground by the end of the October 2006, with NZ \$1.00 trading against US \$0.67 and the Trade-Weighted Index (TWI) standing at 66.6 points.

International Arrivals



Source: Statistics New Zealand

International visitor arrivals to New Zealand totalled 166,531 in September 2006, up from 155,700 recorded in August 2006 and a 1.7% increase compared to September 2005. The annual average growth rate in the number of international visitor arrivals to New Zealand was negative 0.7% for the year ended September 2006.

Summary

The latest Quarterly Survey of Business Opinion (QSBO) published by the New Zealand Institute of Economic Research (NZIER) in October 2006 showed that on a seasonally adjusted basis, a net 26% of firms expected the general economic situation to deteriorate over the next six months. This was a sharp improvement from a net 40% who took a pessimistic view in the previous survey. The number of firms who indicated that they had increased their level of business activity by volume was offset by the number who decreased their level of business activity (up

from a net negative 5% surveyed in June 2006). A net 5% of firms expected to increase their level of business activity over the next three months. Capacity utilisation has increased to reach 92.3%, only slightly below an historic high of 92.6% as at December 2004.

The National Bank's (NB) October 2006 Business Confidence Survey showed that a net 22% of firms expected the overall business conditions in New Zealand to deteriorate in 12 months' time, up from a net 29% of negative respondents recorded in the NB's September 2006 Survey. Farmers possessed the most pessimistic outlook with a net 44% expecting general business

conditions in the national economy to deteriorate in 12 months' time. However, firms were more confident about their own level of business activity with a net 18% (up from a net 15% in September 2006) possessing an optimistic outlook about their projected level of business activity (by volume) in 12 months' time.

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