



NEW ZEALAND ECONOMIC UPDATE

December 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

Economic activity weakened in the third quarter

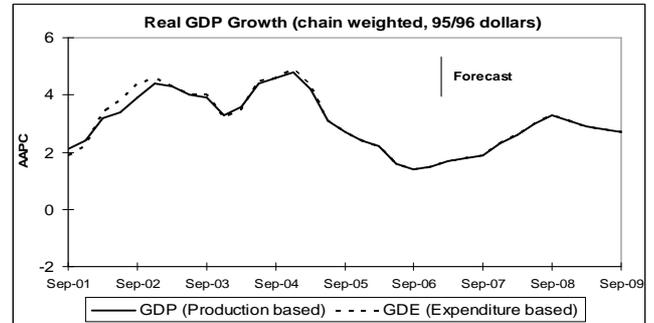
Gross Domestic Product (GDP) increased by 0.3% in the September 2006 quarter. This result was below the market expectation of 0.6% and the Reserve Bank of New Zealand's (RBNZ) estimation of 0.7%. The latest result was similar to the quarterly growth of 0.4% recorded in the June 2006 quarter, bringing annual average growth to 1.4% for the year ended September 2006.

Five sectors recorded positive growth while six sectors contracted over the September 2006 quarter. Production based GDP figures showed that the service industries (0.9%↑ in the September 2006 quarter and 2.6%↑ for the year ended September 2006) were the driving force behind the quarterly GDP growth. Conversely, activity in the goods-producing sectors declined (1.1%↓ in the September 2006 quarter and 1.5%↓ in the year ended September 2006), mostly as a result of the strong New Zealand dollar.

The value added in many sub-groups decreased over the September 2006 quarter, including manufacturing (1.0%↓), food, beverage and tobacco (2.7%↓), construction (0.8%↓), and electricity, gas and water (2%↓). Annual value added by eight of nine manufacturing industries decreased for the year ended September 2006. The primary sector recorded a marginal growth (0.1%↑) in the September 2006 quarter. This was the product of quarterly GDP growth in the agriculture sector being largely offset by a decrease in mining activity.

Looking at expenditure based GDP data, weak demand such as a \$363 million investment reduction in inventories and a fall of 13.6% in non-residential building investment, led to a decrease in total domestic spending by 0.2% over the September 2006 quarter. Household spending over the September 2006 quarter was also muted (0.2%↑). However, fixed asset investment increased by 2.2% over the latest quarter due to an increase of \$258 million in transport equipment investment. Overall the expenditure measure of GDP increased by 0.6% over the September 2006 quarter. Over the third quarter of 2006 export volumes increased by 3.3% and import volumes increased by 1.4%. Government expenditure increased by 0.9% over the September 2006 quarter and 4.1% for the year ended September 2006.

Despite weak activity in the September 2006 quarter, the outlook for the December 2006 quarter GDP statistics is bright. During the December 2006 quarter petrol prices declined, the job market remained tight, the number of immigrants to New Zealand increased and business and consumer confidence increased.



Half Year Economic Fiscal Update (HYEFU)

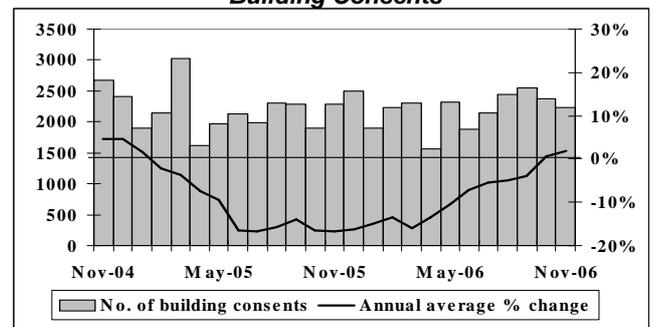
The Treasury released its HYEFU in December 2006. As most economists expected, the HYEFU indicated a strong fiscal position for the Government, but with no new initiatives announced aside from the Business Tax Package.

Stronger-than-expected economic growth, along with a buoyant labour market will boost tax revenue by \$1 billion in 2007. This in turn will lead to a \$6.26 billion operating surplus for the Crown, some \$500 million above the forecast made for the 2006 Budget. Operating surpluses are predicted to be around \$6 billion per year until 2011, while expenditure will be increased moderately by \$2.34 billion over the four years to 2010. While the fiscal position has improved, borrowing requirements (ie. the bond programme) remained unchanged at \$2.5 billion per year.

The treasury also revised its forecast for GDP growth for the year ended March 2007, increasing it from 1.0% to 1.8%. Treasury's other forecasts for growth are less optimistic with 2.3% GDP growth forecasted for the year ended March 2008, and 3.2% forecasted for the year ended March 2009.

Key Indicator Trends

Building Consents

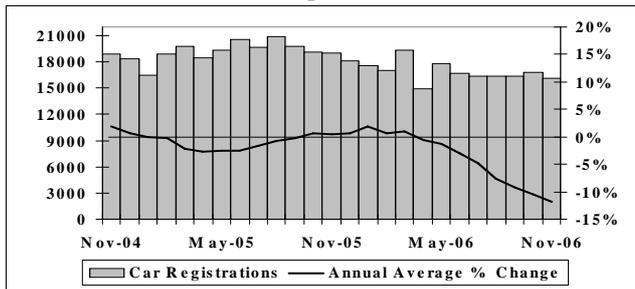


Source: Department of Statistics Building Surveys and Vitals Section

The level of residential building activity in New Zealand decreased slightly in November 2006. There was a total of 2,232 consents issued for new dwellings during the month, which was less than 2,377 consents issued in October 2006 and 2,295 consents issued in November 2005. The annual average growth rate in the number of new building

consents issued in New Zealand was 1.7% for the year ended November 2006.

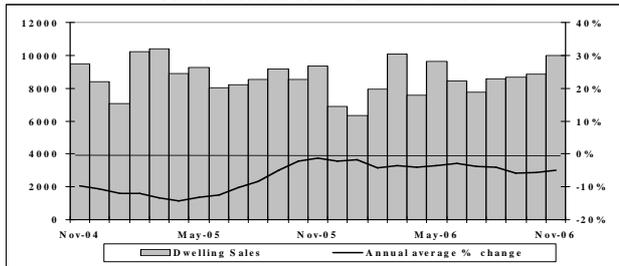
Car Registrations



Source: Land Transport Safety Authority

Only 16,117 cars (including both new and ex-overseas car types) were registered during November 2006, the lowest number recorded over the past seven months. The number of registrations recorded in November 2006 was 2,921 less than the number recorded in November 2005. The annual average growth rate in the number of cars registered in New Zealand was negative 11.7% for the year ended November 2006.

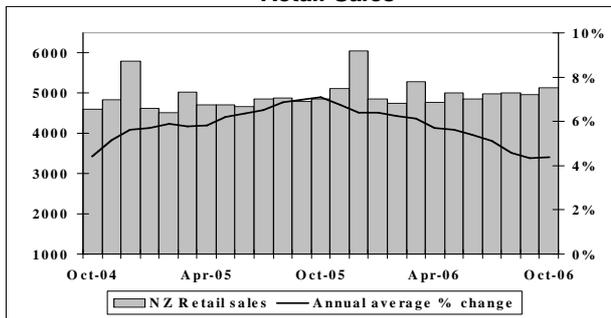
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 9,990 homes were sold during the month, the second greatest number recorded over the past 18 months. Meanwhile, the median sale price exceeded the old record (\$324,000 as at October 2006) to reach \$330,000 as at November 2006. The annual average growth rate in the number of house sales recorded in New Zealand was negative 5.0% for the year ended November 2006.

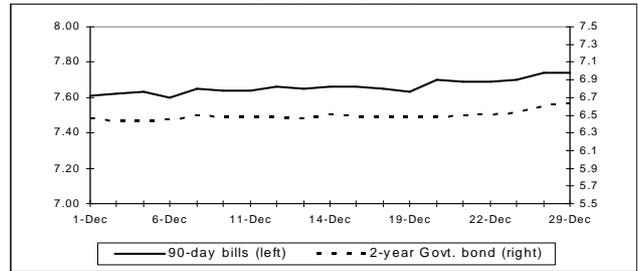
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of retail sales recorded in October 2006 was \$5,145.7 million which was greater than the \$4,968.8 million of sales recorded in September 2006. The value sales recorded in October represented an increase of 5.9% compared to the value of sales recorded in October 2005. The annual average growth rate in the value of New Zealand's retail sales was 4.4% for the year ended October 2006.

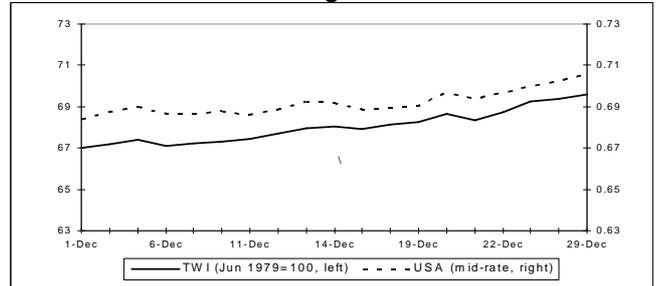
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates increased slightly over December 2006. The key drivers behind the upward trend were the hawkish Reserve Bank of New Zealand December 2006 Monetary Policy Statement and stronger than expected retail sales. By the end of 2006, the 90-day bill rate reached 7.74%.

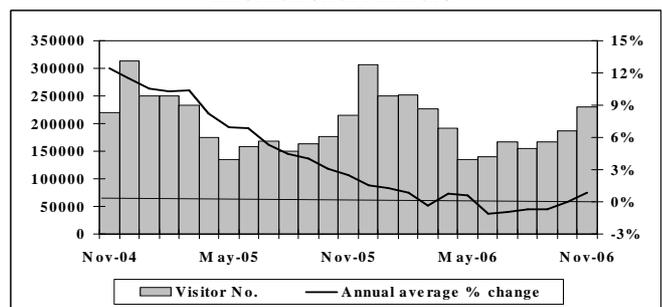
Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates appreciated over the last month of 2006 as stronger than expected retail sales bolstered New Zealand's interest rate expectations, coupled with a dovish Federal Reserve Statement. By the end of the year, the New Zealand dollar reached a 12 month high (exceeding US \$0.7), and the Trade-weighted Index (TWI) reached 69.6 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 229,913 overseas visitors to New Zealand in November 2006, which was greater than the 186,639 visitors recorded in October 2006. The number of visitors in November 2006 represented an increase of 7.1% on the number recorded in November 2005. The annual average growth rate in the number of international visitor arrivals to New Zealand was 0.9% for the year ended November 2006.

Summary

Strong retail sales and a buoyant housing market, combined with a recovery in business and consumer confidence, suggest that growth in the New Zealand economy may gradually accelerate over 2007.

According to the National Bank's December 2006 survey of business confidence, a net 8% of firms expected general business conditions to deteriorate in 12 months' time, improving from a net 14% who took a similar view in November 2006. Although business confidence remained subdued, December's level of business confidence was the most positive recorded in 2006. Builders (a net 8%) and those in the services sector (a net 2%) were optimistic about business conditions in 12 months' time but farmers were pessimistic with those expecting conditions to deteriorate outnumbering those expecting an improvement

(a net negative 43%). Meanwhile, firms' expectations on their own level of business activity (by volume) in 12 months' time was steady at a net 24%, which was the same outlook as that recorded in the National Bank's November 2006 survey of business confidence.

The Westpac McDermott Miller Consumer Confidence Index increased by eight points from the level recorded as at the September 2006 quarter to reach 119.7 points recorded as at the December 2006 quarter (> 100 indicating optimists outnumber pessimists). This result was consistent with increasing disposable incomes (due to a decline in petrol prices, a low national unemployment rate, and the Government's Working for Family Package), and a positive wealth effect (due to a resurgence in the residential real estate sales sector).

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