

### NATIONAL ECONOMIC UPDATE

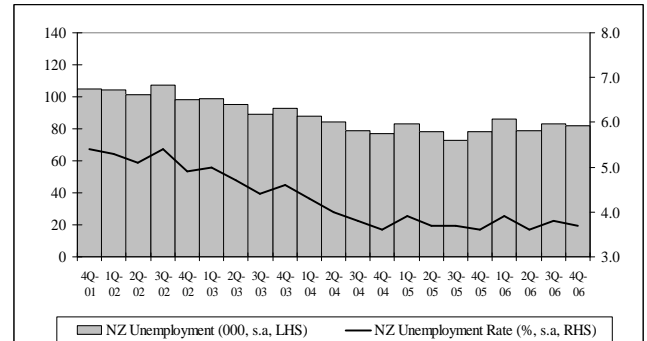
This New Zealand Economic Update is produced monthly and presents current information on recent national business events, along with an update of key economic indicators.

#### Tightness in the labour market eased slightly...

The latest Household Labour Force Survey (HLFS) published by Statistics New Zealand (SNZ) showed that the tightness in the New Zealand labour market eased slightly over the December 2006 quarter. The level of employment has declined for two consecutive quarters. On a seasonally adjusted basis over the December 2006 quarter the number of people employed decreased by 0.1%, while over the September 2006 quarter the level of employment decreased by 0.5%. The latest result was worse than the increases of 0.3% and 0.1% expected by the market and the Reserve Bank respectively. Annual employment growth has slowed from 1.5% for the year to September 2006 to 1.4% for the year to December 2006.

A decline in the level of female employment dominated the December 2006 quarter HLFS results. Male employment increased by 0.3% over the quarter with this change emanating from a 1.6% growth in part-time, and a 0.5% growth in full-time employment. However, female employment decreased by 0.6% due to the combination of a 0.9% decrease in full-time jobs and a 1.1% increase in part-time employment. Disaggregating HLFS data by industry sector and by region showed that the annual employment growth was concentrated in the construction and the communication services industries and that the fastest growth occurred in the Waikato and Wellington regions.

The number of people unemployed decreased by 1.1% over the December 2006 quarter with the level of female unemployment (down 3.5%) accounting for the overall decline. The size of the labour force contracted by 0.3% with people "not in the labour force" increasing by 1.3% over the past three months. This result was mostly driven by females moving out of the workforce. Accordingly, the labour force participation rate declined from 68.3% as at the September 2006 quarter to 67.9% as at the December 2006 quarter. However, a boost in long-term and permanent immigrants pushed the working age population up by 0.4% over the December 2006 quarter. The balance of changes over the quarter in the size of the labour force and numbers unemployed resulted in a 0.1 percentage point decrease in the unemployment rate to 3.7%.



Source: Statistics New Zealand, Household Labour Force Survey

#### RBNZ raised the OCR

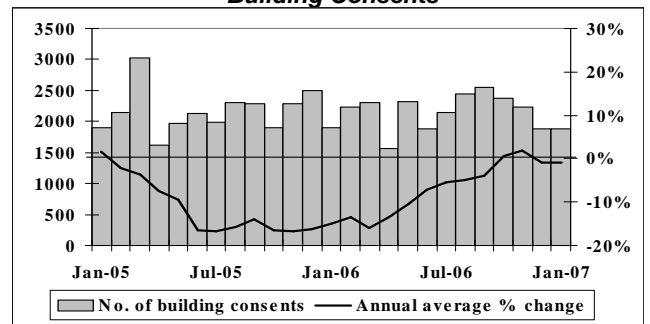
The Reserve Bank of New Zealand (RBNZ) raised the Official Cash Rate (OCR) by 25 basis points to 7.5% in early March 2007. Notably, the RBNZ has not ruled out the possibility of further increases this year.

New Zealand's short-term inflation outlook has moderated as a result of lower headline inflation driving down consumers' inflation expectations. However, the RBNZ is more concerned about medium-term inflation which is its core target. Key drivers behind the RBNZ's current concerns were: a buoyant housing market, the relatively tight labour market, the stimulus to the export industry due to high commodity prices, and the government's expansionary fiscal policy.

The RBNZ pointed out that "Domestic inflation is projected to remain at high levels over the medium term and is subject to considerable upside risk". The tone of this statement was more neutral than the market expected given the RBNZ's recent consideration of alternative measures to slowdown the housing market.

### Key Indicator Trends

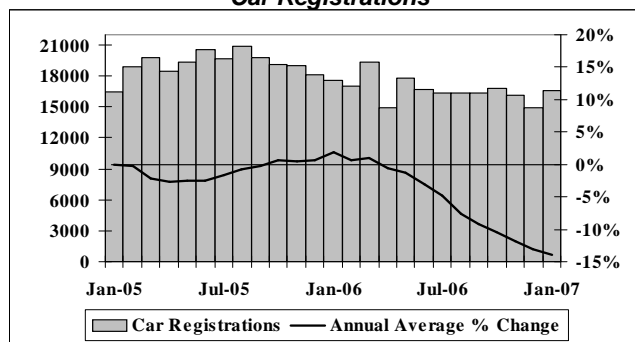
#### Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

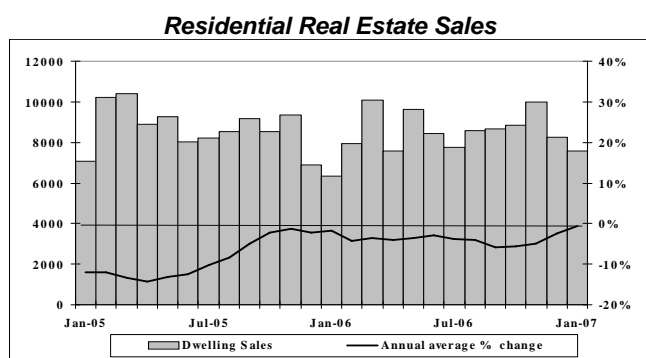
The level of national residential building activity has stabilised over the past two months. There was a total of 1,880 consents issued for new dwellings during January 2007, only marginally less than the 1,883 issued in December 2006 and the 1,900 consents issued in January 2006. The annual average growth rate in the number of new building consents issued in New Zealand was negative 1.0% for the year ended January 2007.

### Car Registrations



Source: Land Transport Safety Authority

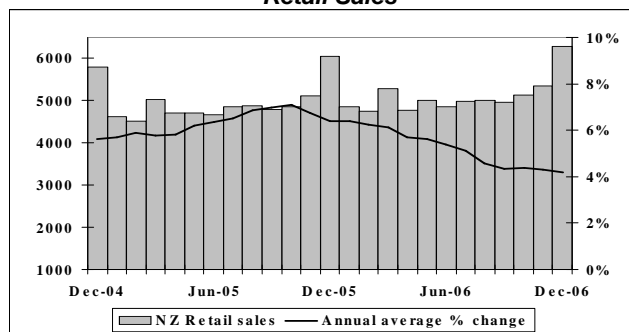
A total of 16,591 cars (including both new and ex-overseas car types) were registered during January 2007 which was greater than the 14,916 cars registered in December 2006. However, January 2007's level was less than the 17,604 cars registered in January 2006. The annual average growth rate in the number of cars registered in New Zealand was negative 14.0% for the year ended January 2007.



Source: Real Estate Institute of New Zealand

The housing market in January normally exhibits a weak level of activity. This year was no different. A total of 7,566 homes were sold during the month. This represented a decrease from the 8,245 houses sold in December 2006, but an increase from the 6,360 houses sold in January 2006. The national level median sale price as at January 2007 was around \$327,000. The annual average growth rate in the number of houses sold in New Zealand was negative 0.5% for the year ended January 2007.

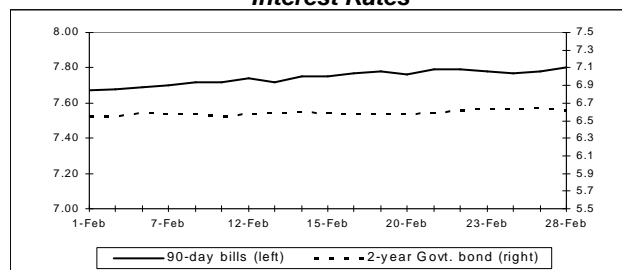
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's retail sales reached a record high in December 2006 at \$6,276.2 million. The annual average growth rate in the value of New Zealand's retail sales was 4.2% for the year ended December 2006.

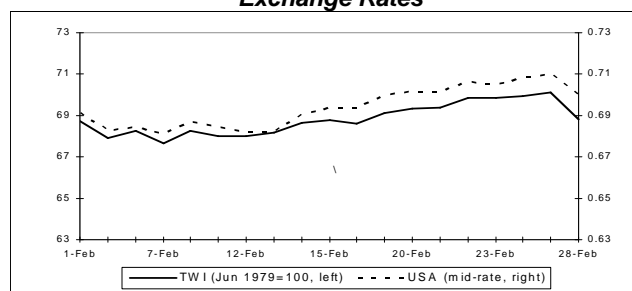
### Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates increased steadily over February 2007 driven initially by the expectation of an increase in the OCR and later in the month by the fact that this expectation came to fruition. As a result, the 90-day bill rate reached 7.8% by the end of February 2007.

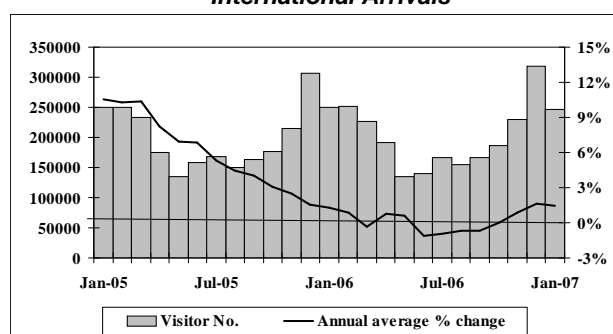
### Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates appreciated during most of February 2007 before declining on the last day of the month, largely caused by a sharp fall in global share markets. By the end of the month, NZ\$1.00 traded against US\$0.70, and the Trade-Weighted Index (TWI) settled at 68.8 points.

### International Arrivals



Source: Statistics New Zealand, International Visitor Arrivals Survey

With the exception of the number of Chinese and South Korean visitors, the number of international visitor arrivals to New Zealand by those from our major visitor markets declined in January 2007 compared to January 2006. There was a total of 246,748 visitor arrivals to New Zealand during the month, down from 319,040 visitors recorded in December 2006 and 250,554 visitors recorded in January 2006. The annual average growth rate in the number of visitor arrivals to New Zealand has slowed from 1.6% for year ended December 2006 to 1.4% for the year ended January 2007.

### Summary

The Reserve Bank of New Zealand raised the Official Cash Rate by 25 basis points to 7.5% in early March 2007. Key drivers behind the RBNZ's current concerns were: a buoyant housing market, the relatively tight labour market,

the stimulus to the export industry due to high commodity prices, and the government's expansionary fiscal policy.

Annual employment growth has slowed from 1.5% for the year to September 2006 to 1.4% for the year to December 2006. A decline in the level of female employment dominated the December 2006 quarter HLFS results. Disaggregating HLFS data by industry sector and by region showed that the annual employment growth was concentrated in the construction and the communication services industries and that the fastest growth occurred in the Waikato and Wellington regions.

The National Bank's (NB) February 2007 survey of business confidence showed that a net 6% of firms expected general business conditions to deteriorate in 12 months' time. A net 8% of respondents were pessimistic in the December 2006 survey (there was no survey in January 2007).

The level of business confidence has risen to a three-year high. Builders and farmers took opposite views on the likely condition of the national economy in 12 months' time, with the former becoming optimistic (a net 7%) and the latter remaining pessimistic (a net negative 36%). Firms across all of New Zealand's major industries were positive about their future, with a net 26% expecting to increase their level of activity (by volume) in 12 months' time.

**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.