



NEW ZEALAND ECONOMIC UPDATE

March 2007

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.

Modest GDP growth in the December 2006 quarter

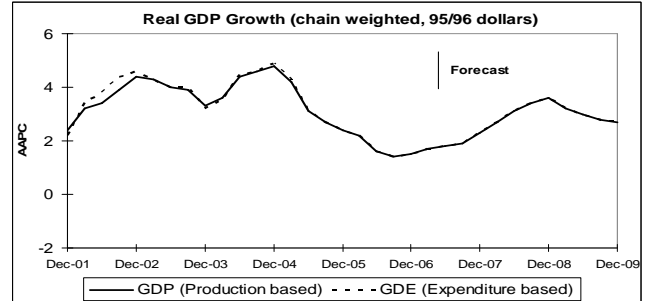
According to Statistics New Zealand (SNZ), Gross Domestic Product (GDP) grew by 0.8% in the December 2006 quarter following an increase of 0.3% in the previous quarter. While the latest economic activity was slightly below the market's and the Reserve Bank of New Zealand's (RBNZ) expectations of quarterly growth (0.9% and 1.0% respectively), it was the strongest recorded over the past six quarters. Annual GDP was 1.5% for the 2006 calendar year, slowing from the 2.2% recorded in the year ended December 2005.

Nine out of eleven industry sectors recorded positive growth in the December 2006 quarter. Services industries, which account for about two-thirds of GDP, remained the driving force of the economic growth. Boosted by strong household spending, activity in the service industries increased by 0.9% in the December 2006 quarter and 2.7% in the year ended December 2006.

The finance and insurance, and the retail trade industry groups made the largest contribution to the services sector growth, growing by 2.5% and 2.3% respectively in the December 2006 quarter. The property and business services group also grew 1.0% in the same period. Community services recorded a 1.2% increase, while transport and communication services increased by 0.9% in the December 2006 quarter. In addition, government administration and defence activity grew by 0.5% over the December 2006 quarter. However, value-added by the wholesale trade industry decreased by 1.7%, and activity in the accommodation, restaurants and bars services group also decreased by 0.9% over the December 2006 quarter.

In contrast to a decrease of 0.6% in the September 2006 quarter, activity in the primary industries grew strongly in the December 2006 quarter (2.5%↑), resulting in growth of 2.1% for the year ended December 2006. Helped by the level of dairy farming activity, output in agriculture rose by 1.8% in the December 2006 quarter. The mining industry grew strongly (4.9%↑), while growth in the December 2006 quarter in forestry and logging products increased by 3.8%.

The level of activity in the goods-producing industries was relatively weak over the December 2006 quarter. In particular, manufacturing products activity declined by 0.6%, the third decrease in three consecutive quarters. However, there were increases in the construction industry and the utility group which helped the goods-producing sector maintain a modest growth of 0.4% in the December 2006 quarter.



Source: New Zealand Institute of Economic Research and Statistics New Zealand

Annual current account deficit contracted slightly

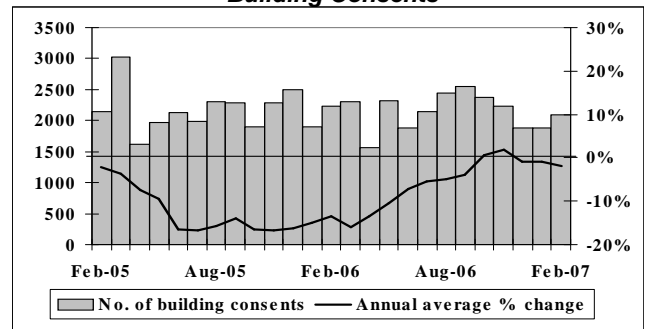
The December 2006 quarter Balance of Payments Current Account Deficit (CAD) stood at \$3,929 million. This was better than the deficit of \$4,667 million recorded for the September 2006 quarter. On an annual basis the CAD for the year ended December 2006 was \$14.45 billion (equivalent to 9.0% of GDP) and was an improvement from the deficit of \$14.51 billion recorded for the year ended September 2006.

The balance on services enjoyed a surplus of \$209 million for the December 2006 quarter, largely due to increased exports in communication, personal, cultural and recreational services while the goods balance recorded a deficit of \$1,273 million for this period. However, the latter was an improvement from the deficit of \$1,465 recorded in the September 2006 quarter.

The main cause of the CAD came from a massive investment income deficit. This has increased from \$2,744 million recorded in the September 2006 quarter to \$3,125 million recorded in the December 2006 quarter. Higher profits earned by foreign owned New Zealand companies, higher interest payments, and an increased stock of assets owned by foreigners, all contributed to the widening of the investment income deficit.

Key Indicator Trends

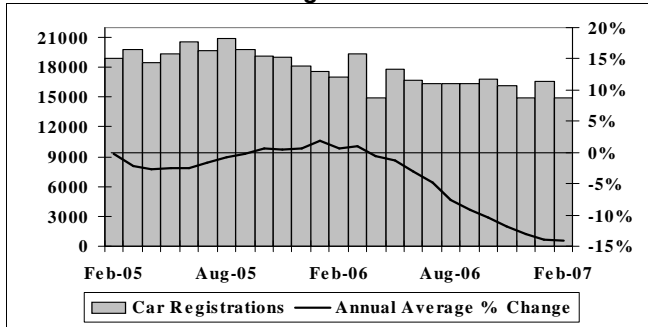
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 2,092 consents issued for new dwellings during February 2007. These were valued at around \$497.5 million. While the monthly level increased from 1,880 consents issued in January 2007, February 2007's level was less than the 2,237 consents issued in February 2006. The annual average growth rate in the number of new building consents issued in New Zealand for residential dwellings was negative 1.9% for the year ended February 2007.

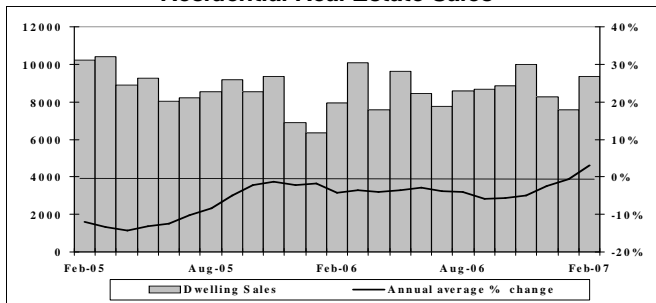
Car Registrations



Source: Land Transport Safety Authority

Including new and ex-overseas car types, registrations totalled 14,919 during February 2007. This was the lowest level recorded for the month of February over the past six years. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 14.2% for the year ended February 2007.

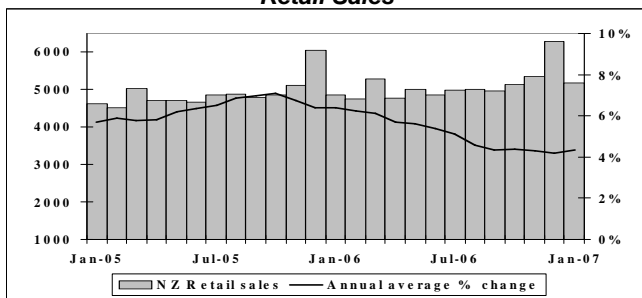
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The level of activity in New Zealand's housing market rebounded strongly in February 2007. There was a total of 9,357 houses sold during the month. February 2007's level was greater than the 7,566 and 7,930 house sales recorded in January 2007 and February 2006 respectively. The median sale price as at February 2007 reached a new high of \$335,000. The annual average growth rate in the number of houses sold in New Zealand was positive for the first time since September 2004, standing at 3.1% for the year ended February 2007.

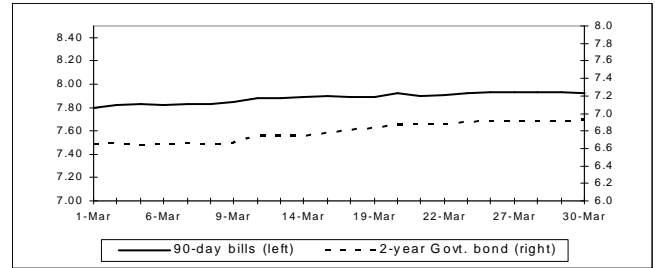
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's retail sales decreased from \$6,272.2 million recorded in December 2006 to \$5,185 million recorded in January 2007. The value of retail sales recorded in January 2007 represented a 6.9% increase on the value recorded in January 2006. The annual average growth rate in the value of New Zealand's retail sales was 4.4% for the year ended January 2007.

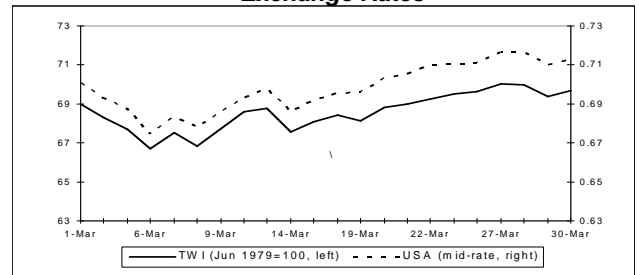
Interest Rates



Source: Reserve Bank of New Zealand

A steady increasing trend characterised New Zealand's wholesale interest rates during March 2007. By the end of the month, the 90-day bill rate had increased by 0.12 percentage points from 28 February 2007 to reach 7.92%.

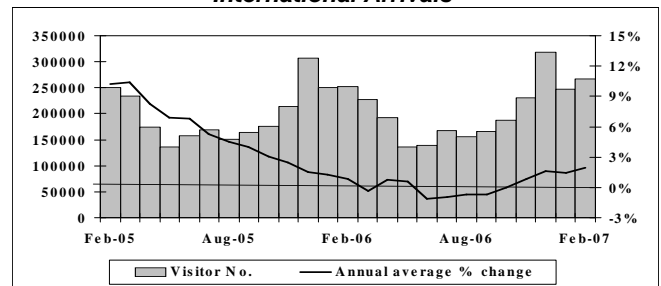
Exchange Rates



Source: Reserve Bank of New Zealand

While New Zealand's exchange rates fluctuated in March 2007, an upward trend was clearly evident. This phenomenon was partly due to the strong Australia dollar. By the end of the month, NZ\$1.00 was worth US\$0.71 and the Trade-Weighted Index (TWI) stood at 69.7 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 267,569 overseas visitors to New Zealand in February 2007. This was a greater number than that recorded in January 2007 (246,748 visitors) or February 2006 (252,431 visitors). The annual average growth rate in the number of visitor arrivals to New Zealand was 2.0% for the year ended February 2007.

Summary

The December 2006 quarter GDP data showed that the New Zealand economy is steadily expanding, albeit at a moderate pace. Consumers and firms level of optimism has been moderated by a strong Kiwi dollar which has negatively impacted on some export industries and high interest rates which have caused debt servicing costs to increase.

According to the National Bank's (NB) business confidence survey for March 2007, a net 13% of firms expected the general economic conditions to deteriorate in 12 months' time. This represented a decline in confidence from the previous month when a net 6% took a similar view. The most pessimistic group of respondents were farmers (a net negative 30%) while builders were the most optimistic (a net negative 3%). Firms' expectations of their own level of activity (by volume) in 12 months' time also declined slightly, but nevertheless remained positive with a net 24% of firms expecting to increase their level of activity (compare this to a net 26% recorded in February 2007). However, a net 31% of businesses expected to increase

their prices in the year ahead, suggesting strong medium-term inflationary pressures are present in the economy.

The Westpac McDermott Miller Consumer Confidence Index for the March 2006 quarter decreased from 119.7 points in the December 2006 quarter to 117.7 points in the March 2007 quarter. An index number over 100 indicates that there are more optimists than pessimists, while a number under 100 indicates that pessimists outnumber optimists. Two key factors played an important role in lowering the level of consumer confidence – a 13% increase in petrol prices over the March 2006 quarter and the increase in the Official Cash Rate (OCR) by the Reserve Bank of New Zealand by 25 basis points on 8 March 2007.

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