

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.

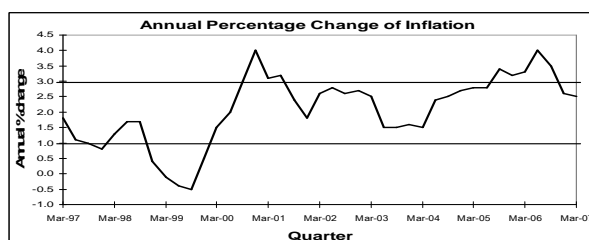
The New Zealand Consumer Price Index (CPI) increased by 0.5% over the March 2007 quarter. Comparably a 0.2% decrease in the index was recorded for the December 2006 quarter. Annual headline inflation was 2.5% for the year ended March 2007 compared to the 2.6% recorded for the 2006 calendar year.

Quarterly CPI growth was weaker than the market expected. Seven out of eleven groups grew while four groups recorded quarterly percentage decreases. Non-tradable quarterly CPI growth (ie goods and services facing no foreign competition) increased from 0.8% recorded for the December 2006 quarter to 1.2% recorded for the March 2007 quarter. Housing a key component of non-tradable inflation, increased by 1.1% over the March 2007 quarter and 5.3% on an annual basis, driven by higher prices in rentals and purchasing of new houses.

The food group contributed 1.88 points to a 4.7 point increase in the CPI. Backed by price increases in grocery food (1.0%↑), meat, poultry and fish (2.2%↑), food prices increased by 1.1% over the past three months. Food prices increased 4.0% in the year from the March 2006 quarter to March 2007 quarter. Within the food group the only decrease in prices occurred in the fruit and vegetable subgroup (down 1.3%).

Groups which showed quarterly price increases included education (3.4%↑, due to higher tuition fees), alcohol and tobacco (1.0%↑, caused by the annual rise in excise duties), health (1.1%↑, because of higher costs in medical and dental services) and miscellaneous (1.2%↑).

Quarterly tradable inflation decreased by 0.4% over the March 2007 quarter (0.9%↓ on an annual basis) thanks to a strong New Zealand dollar. Prices in household items (eg furniture), recreation (eg visual devices), apparel, (eg clothing), and transport (eg international airfares), recorded decreases of 1.0%, 0.7%, 0.5% and 0.2%, respectively over the March 2007 quarter. Price decreases in these groups resulted in a negative 1.99 point contribution to the CPI.



Source: Reserve Bank of New Zealand and Statistics New Zealand

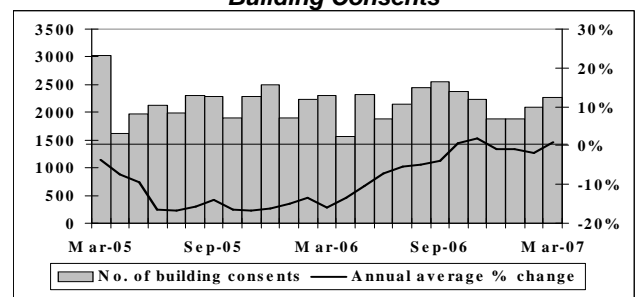
Reserve Bank increased the OCR to 7.75%

The Reserve Bank of New Zealand (RBNZ) raised the Official Cash Rate (OCR) to 7.75% in April 2007. This result was in line with most economists' expectations.

The main drivers behind the OCR increase included strong retail sales, a tight labour market, a strong housing market, expansionary fiscal policy, an increasing level of net immigration, and an improvement in New Zealand's terms of trade. In terms of future movements in the OCR, the RBNZ is adopting a wait and see strategy, since the full impacts of high mortgage rates and the high exchange rates are yet to manifest.

Key Indicator Trends

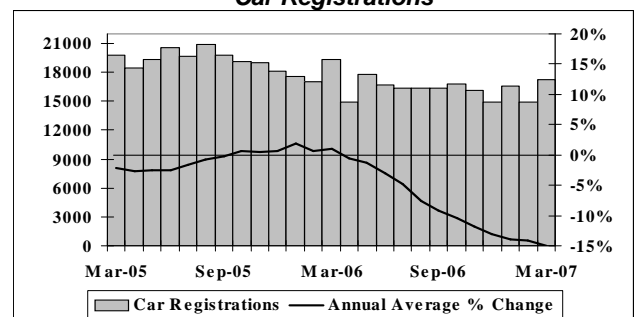
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

A total of 2,269 consents were issued for new dwellings in New Zealand during March 2007. These were worth around \$588.0 million. While March 2007's number was slightly below the 2,299 consents issued in March 2006, it was the greatest number of consents issued over the past five months. The annual average growth in the number of new building consents issued in New Zealand was 0.8% for the year ended March 2007.

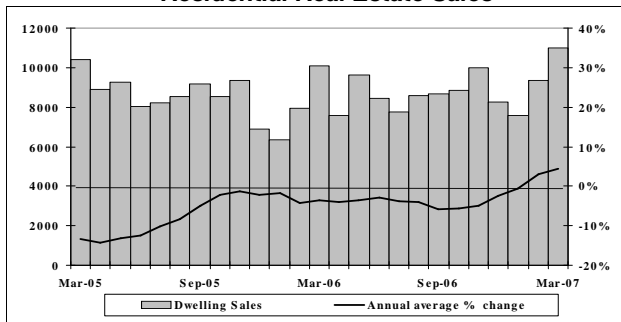
Car Registrations



Source: Land Transport Safety Authority

There was a total of 17,201 cars (including both new and ex-overseas car types) registered in New Zealand during March 2007. This was the second greatest number recorded over the past 12 months. The annual average growth rate in the number of cars registered in New Zealand was negative 14.9% for the year ended March 2007.

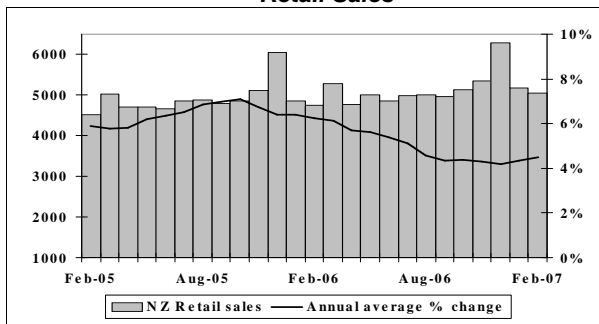
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The number of monthly house sales exceeded 10,000 during the March 2007, with the median sale price reaching a new high of \$343,500. The sales volume recorded in March 2007 was the highest recorded since April 2004. The annual average growth rate in the number of houses sold in New Zealand was a solid 4.3% for the year ended March 2007.

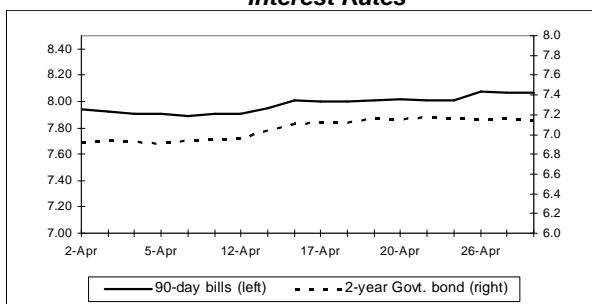
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's retail sales recorded in February 2007 represented a decrease of \$31.4 million compared to the \$5,185 million of retail sales recorded in January 2007. Retail sales recorded in February 2006 stood at \$4,748.9 million. The annual average growth rate in the value of New Zealand's retail sales was 4.5% for the year ended February 2007.

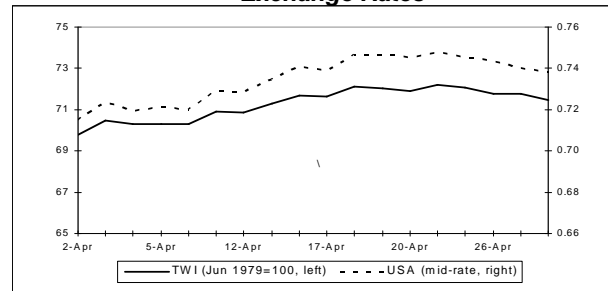
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates increased over April 2007 due to the increase in the OCR. By the end of the month, the 90-day bill rate was 8.07%. This was an increase from 7.92% recorded for the end of March 2007.

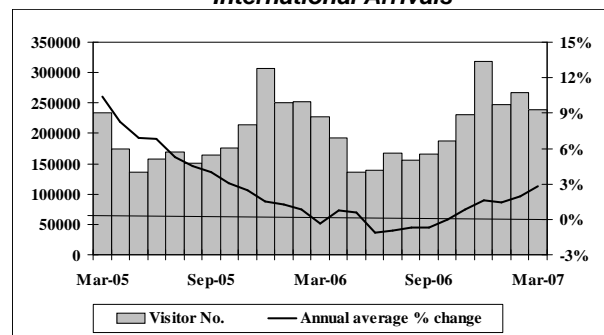
Exchange Rates



Source: Reserve Bank of New Zealand

Rising interest rates and a weak US dollar worked together to push the Kiwi dollar to a post float high in April 2007. However, the Kiwi dollar depreciated slightly by the end of the month, with NZ\$1.00 trading against US\$0.74 and the Trade-Weighted Index (TWI) standing at 71.5 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 239,203 international to New Zealand during March 2007. This represented a decrease compared to the 367,569 visitor arrivals recorded in the February 2007. March 2007's visitor arrivals represented an increase of 5.4% compared to the number of visitors arrivals recorded in March 2006. The annual average growth rate in the number of visitor arrivals to New Zealand was 2.8% for the year ended March 2007.

Summary

The New Zealand exchange rate recorded a high of NZ\$0.75 (against the US dollar) in April 2007. This in turn, triggered a debate on whether we need a shared currency with Australia. A (UMR) poll revealed that 49% of New Zealanders favour a common currency. Supporters listed the benefits, including lower transaction costs and the removal of currency uncertainty between New Zealand and its main trading partner. However, opponents noted that a common currency would mean the end of an independent monetary policy, loss of economic sovereignty and more economic volatility caused by external shocks (from Australia).

According to the latest Quarterly Survey of Business Opinion (QSBO) published by the NZIER, business confidence (about the New Zealand economy over the next six months) declined from a net 3% as at the December 2006 quarter to a net negative 15% as at the March 2007 quarter. Firms' intentions with respect to future price increases increased from a net 28% to a net 40%, indicating that more firms intend to pass on increased operating costs due to fuel and interest rates.

The April 2007 edition of the National Bank's Survey of Business Confidence showed that a net 19% of firms expect overall business conditions to worsen in 12 months' time. This result represented a decrease from a net 13% of firms who felt pessimistic in the March 2007 survey. However, firms were optimistic about their own level of business activity (by volume) with a net 23% expecting to increase their level of activity 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.