



NEW ZEALAND ECONOMIC UPDATE

May 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

NZ job market strong but stable

According to the Household Labour Force Survey (HLFS) published by Statistics New Zealand (SNZ), the job market remained robust but has started to stabilize in the first quarter of 2007. Employment continued to surge, yet the unemployment rate also edged slightly higher.

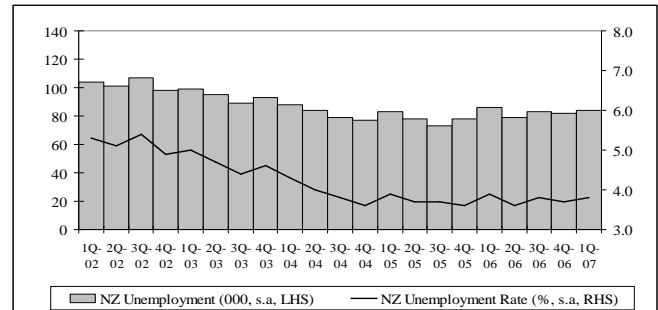
The March 2007 quarter saw employment rise by 25,000 (or 1.2%). This was more than double the market's expectations and twice as large as the Reserve Bank of New Zealand's forecast. On an annual basis employment increased 1.7% to reach 2,143,000 for the year ended March 2007. The job growth largely emanated from an increase in the number of people employed part-time rather than an increase in those employed full-time. The former recorded an increase of 16,000 (3.5%↑) people and the latter a 4,000 (0.3%↑) increase in the number of people employed.

On an annual basis both types of employment grew a similar amount, with 18,000 (or 3.3%) for part-time employment and 19,000 (or 1.1%) for full-time employment.

During the March 2007 quarter male employment increased by 8,000 jobs (0.7%↑) and was fully driven by an increase in part-time employment (8.2%↑), while males employed in full-time jobs actually declined by 0.4%. Female employment recorded an increase of 17,000 people which was made up of an increase in those employed in part-time (2.6%) and full-time (1.4%) positions. Weekly actual hours worked declined by 0.4% over the March 2007 quarter, and increased by 0.8% compared to March 2006.

An increase in the level of permanent immigration has resulted in the working-age population increasing by 12,200 (or 0.4%) to 3,247,500 people. This in turn, pushed the labour force participation rate up by 0.6 percentage points to 68.6%, the second highest rate ever recorded.

The number of unemployed increased by 1,000 to 84,000 people in the March 2007 quarter, with female unemployment increasing by 2,000 people (or 4.7%) and male unemployment decreasing by 1,000 (1.3%↓) This resulted in the unemployment rate increasing by 0.1 percentage points to 3.8%.



Source: Statistics New Zealand, Household Labour Force Survey

Review of the 07/08 Budget

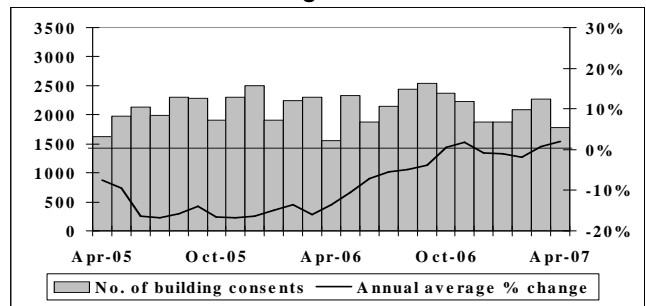
The Treasury released the budget for the 2007/08 financial year in May 2007. It indicated a bold change in policy direction, in terms of households' future saving and business taxation.

Around \$3.2 billion will be invested over the next four years to enhance the Kiwi Saver Scheme. This includes a \$1,000 lump sum payment and up to a \$20 per week tax credit for members, as well as the introduction of a compulsory employer contribution to match employees' savings (capped at 4% of salary and phased in over four years). An additional tax credit for employers will partially offset their contribution (up to \$20 per employee per week).

The government will inject \$3.4 billion into the Business Tax Reform Package over the next four years. This will include \$2.1 billion coming from a reduction in the corporate tax rate from 33% to 30%. There will also be tax credits of 15% for research and development activities. To fund those programmes, the government intends to borrow \$2.5 billion (by issuing bonds) in each of the next four years.

Key Indicator Trends

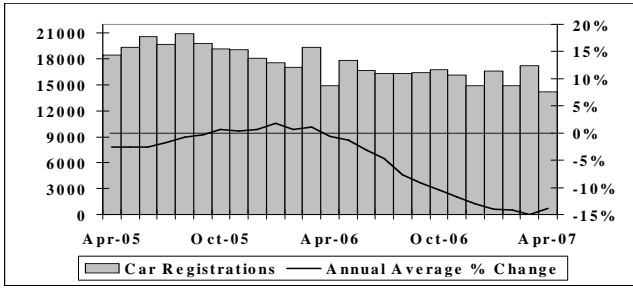
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

The level of activity in New Zealand's residential construction sector decreased in April 2007. There was a total of 1,782 consents issued for new dwellings during the month, the lowest level issued over the past 12 months. April 2007's level was greater than the 1,558 consents issued in April 2006. The annual average growth rate in the number of new building consents issued in New Zealand was 1.9% for the year ended April 2007.

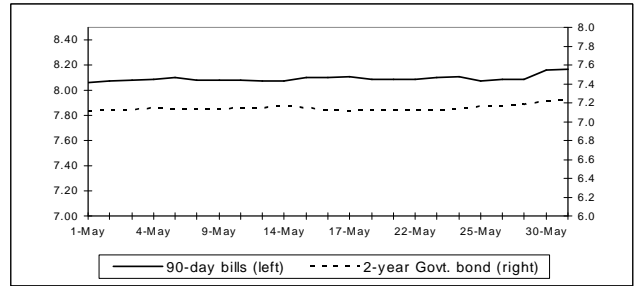
Car Registrations



Source: Land Transport Safety Authority

Only 14,192 cars (including both new and ex-overseas car types) were registered during April 2007, well below the 17,201 cars registered a month earlier (it was actually the lowest level recorded since May 2001). The annual average growth rate in the number of cars registered in New Zealand was negative 13.9% for the year ended April 2007.

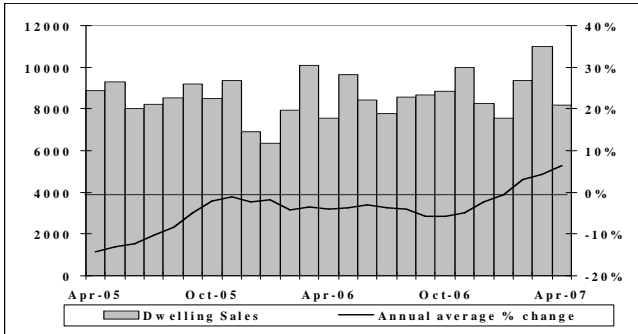
Interest Rates



Source: Reserve Bank of New Zealand

By the end of the month, the 90-day bill rate reached 8.17%, an increase of 0.1 percentage points from the rate recorded at the end of April 2007.

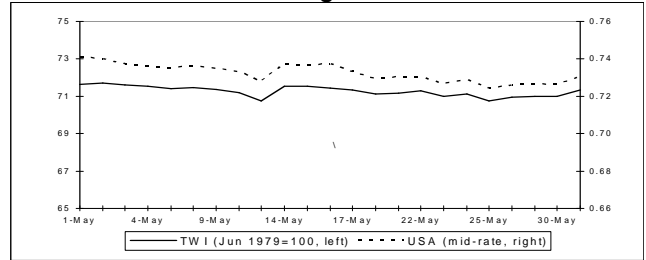
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

While the number of house sales declined from the 10,989 recorded in March 2007 to 8,194 in April 2007, the median sale price increased by \$5,500 to reach \$349,000. April 2007's level represented an increase of 618 house sales compared to number recorded for April 2006. The annual average growth rate in the number of houses sold in New Zealand was 6.3% for the year ended April 2007.

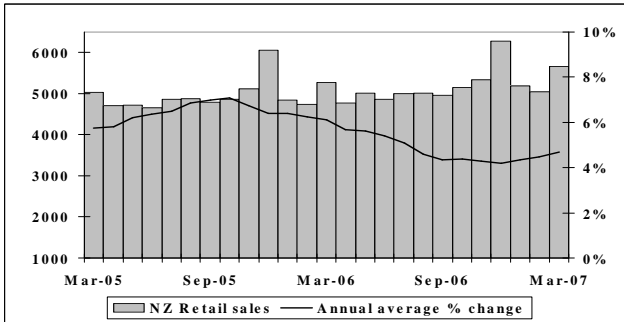
Exchange Rates



Source: Reserve Bank of New Zealand

A stronger than expected US economy, along with a weaker Australian dollar triggered a decline in New Zealand's exchanges rates in mid May 2007. However, the value of the New Zealand currency recovered and oscillated around the 72 - 73 US cent range for the rest of May 2007. By the end of the month, the Trade-Weighted Index (TWI) stood at 71.3 points.

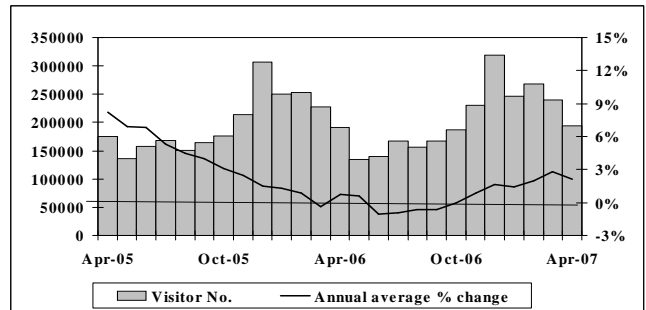
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The level of national retail sales activity remained solid in March 2007. The value of sales reached \$5,670.8 million during the month, an increase from the \$5,053.6 million recorded for February 2007, and greater than the \$5,277.6 million of sales recorded in March 2006. The annual average growth rate in the value of New Zealand's total retail sales was 4.7% for the year ended March 2007.

International Arrivals



Source: Statistics New Zealand

While international visitor arrivals declined from 239,203 visitors recorded in March 2007 to 193,229 visitors recorded in April 2007, they were still marginally greater than April 2006's level of 191,648 international visitor arrivals. The annual average growth rate in the number of international visitor arrivals to New Zealand was 2.1% for the year ended April 2007.

Summary

Following the release of the Budget, the augmented Kiwi Saver Scheme became a topic for discussion amongst New Zealanders in May 2007. An ongoing theme for 2007 is that New Zealand exporters continue to be adversely impacted by high exchange rates. Increases in the OCR by the RBNZ have resulted in exchange rate appreciation and escalating debt servicing costs. Consequently, business confidence declined sharply in May 2007.

The National Bank's May 2007 Business Confidence Survey showed that a net 48% of firms expected the general economic conditions to deteriorate in 12 months' time, down from a net 19% who were pessimistic in April 2007. May 2007's confidence level was the lowest level recorded since March 2006.

The pessimistic mood was spread across all sectors. Notably, the majority of farmers felt negative about the future (a net negative 70%). Firms' expectations of their own level of activity in 12 months' time descended to an eight month low, with only a net 8% of firms expecting their own level of business activity (by volume) to increase. The survey results may over emphasize the negative aspects: growth in the New Zealand economy remains solid with world commodity prices (especially for dairy products) on the increase and there exists a high level of domestic demand.

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