

June 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

Quarterly GDP growth was buoyant

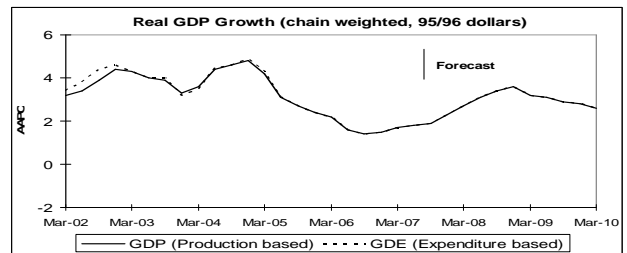
According to Statistics New Zealand (SNZ), New Zealand's economic activity remained solid with Gross Domestic Product (GDP) growing 1.0% in the March 2007 quarter. This was in line with the market's expectations, but exceeded the Reserve Bank of New Zealand's (RBNZ) forecast of 0.8%. Growth in the March 2007 quarter followed an increase of 0.8% in the December 2006 quarter, and brought annual average growth to 1.7% for the year ended March 2007.

Seven out of eleven industry sectors recorded positive growth over the March 2007 quarter. Value added by the electricity, gas and water and the personal and community services sectors was static over the March 2007 quarter while value added by fishing forestry and mining and agriculture sectors declined over this period.

The service industries account for around two-thirds of the activity within the New Zealand economy. In the March 2007 quarter they remained the powerhouse of New Zealand's economic activity. Activity in this group grew by 1.2% in the March 2007 quarter, and 2.9% over the past 12 months. The retail industry made the largest contribution to the group, with a growth of 3.4% in the March 2007 quarter. This was the fastest growth recorded since the June 1989 quarter. Wholesale trade activity increased by 1.7% over the March 2007 quarter, boosted by increased sales in motor vehicle wholesaling. Activity in the other sub-groups, such as government and finance sectors, also strengthened on a quarterly and annual basis.

Following 0.4% growth in the December 2006 quarter, goods-producing industries grew by 1.3% in the March 2007 quarter. After possessing negative growth for the past three quarters, the manufacturing sector finally reached positive territory with 1.1% growth over the March 2007 quarter. This result was due to increased activity in metal, chemical and food manufacturing. Despite a slight fall in residential building activity, the construction sector showed solid growth of 2.6% over the March 2007 quarter. On an annual basis, however, value-added by the goods-producing industries declined by 1.6% for the year ended March 2007. As activity levelled off in dairy and mixed livestock farming industries, value-added in the primary sector decreased 0.3% over the March 2007 quarter, but increased 2.1% compared to that created in the year ended March 2006.

Expenditure based GDP showed household spending grew by 2.2% over the March 2007 quarter, while business investment in fixed assets increased by 5.2% over this period. Strong domestic demand in the March 2007 quarter resulted in a 4.3% growth in imports which exceeded a 2.0% growth in export volumes.



Source: New Zealand Institute of Economic Research (NZIER) and Statistics New Zealand

Yet another OCR increase

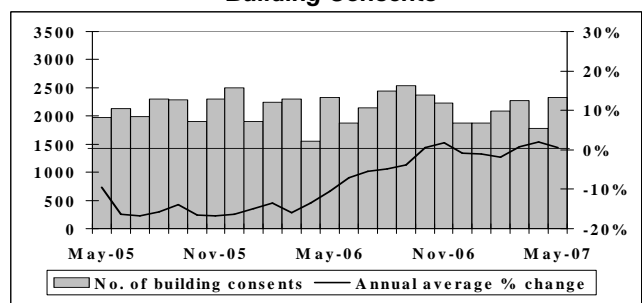
The Reserve Bank of New Zealand raised the Official Cash Rate (OCR) in early June 2007 by 25 basis points to 8%. The tightening monetary policy cycle started at 5% back in January 2005 and the latest OCR increase was the twelfth increase since then.

The latest OCR increase was not a surprise. Domestic demand has remained solid, with the housing sector showing no sign of slowing down and the job market still facing shortages of skilled labour. Looking forward, government spending will accelerate as an election year approaches, and farmers may increase their expenditure due to higher Fonterra payouts as a consequence of accelerating international dairy prices.

Following the OCR increase, interest rates increased across the board, and the New Zealand dollar immediately jumped half a cent. Since the balance of risks to the medium-term inflation outlook is to the upside, there is the possibility of further OCR increases in 2007.

Key Indicator Trends

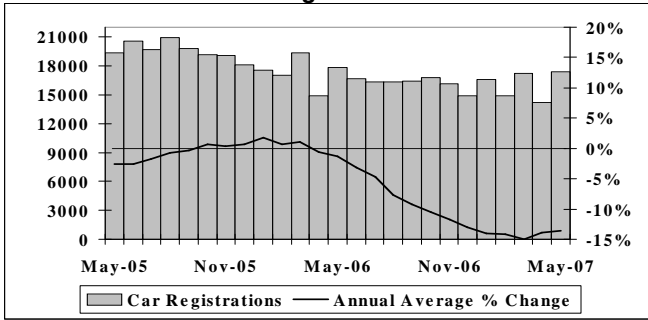
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 2,322 consents issued for new dwellings during the month, valued at around \$599.6 million. This was the highest level achieved over the past six months. The annual average growth rate in the number of new building consents issued in New Zealand for residential dwellings was 0.5% for the year ended May 2007.

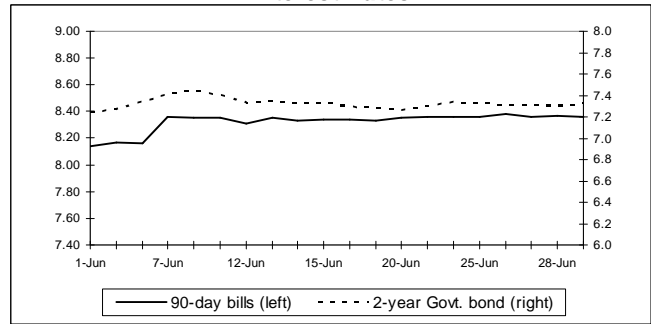
Car Registrations



Source: Land Transport Safety Authority

There were 17,356 cars (including both new and ex-overseas car types) registered during May 2007, greater than the 14,192 cars registered in April 2007, but less than the 17,805 cars registered in May 2006. The annual average growth in the number of cars registered in New Zealand was negative 13.5% for the year ended May 2007.

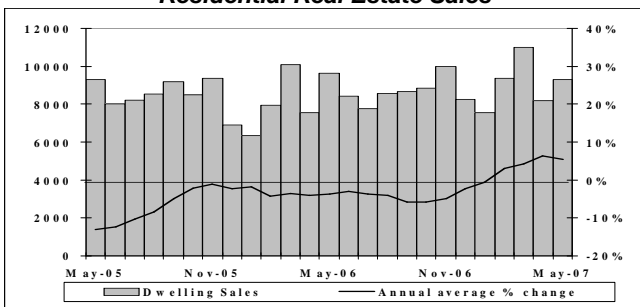
Interest Rates



Source: Reserve Bank of New Zealand

Following the 25 basis point increase in the OCR, New Zealand's wholesale interest rates increased immediately before stabilising thereafter. By the end of June 2007, the 90-day bill rate stood at 8.36%.

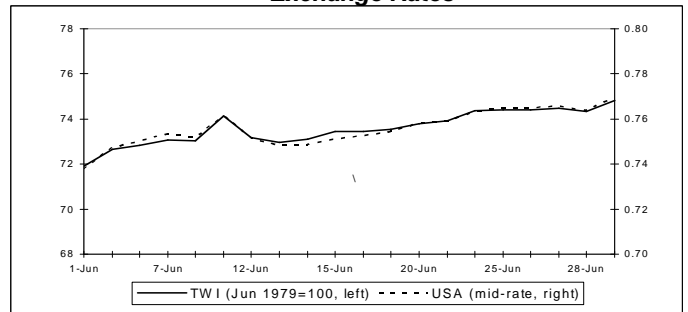
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The housing market remained buoyant throughout the country in May 2007. The national median sale price reached a new high of \$350,000 as at May 2007, while sales volumes increased from 8,194 houses sold in April 2007 to 9,285 houses sold in May 2007. The annual average growth rate in the number of houses sold in New Zealand was 5.6% for the year ended May 2007.

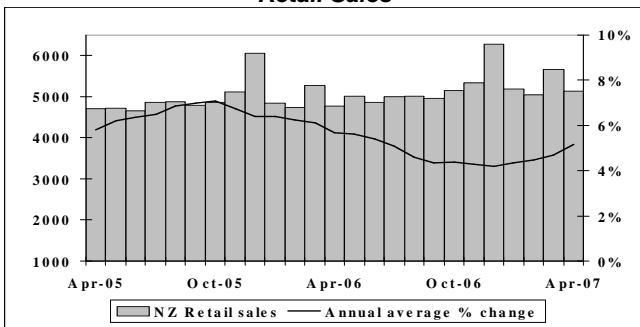
Exchange Rates



Source: Reserve Bank of New Zealand

The post-float high of the New Zealand dollar forced the RBNZ's intervention in mid June 2007. This action did not immediately result in the value of the Kiwi dollar declining and the effects were only transitory as an upward trending pressure dominated the market. By the end of June 2007, NZ\$1.00 was worth US\$0.77, and the Trade-Weighted Index (TWI) stood at 74.8 points.

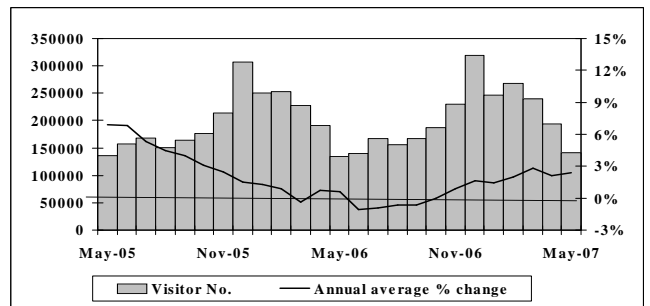
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

New Zealand retail sales activity decreased from \$5,670.8 million recorded in March 2007 to \$3,873.2 million recorded in April 2007. However, April 2007's value of sales represented a \$354.6 million (or 7.4%) increase on the value recorded for April 2006. The annual average growth rate in the value of New Zealand's retail sales was 5.2% for the year ended April 2007.

International Arrivals



Source: Statistics New Zealand

In May 2007 there was a total of 140,755 international visitors to New Zealand. This was the lowest level recorded over the past 11 months, but still greater than the 135,279 visitor arrivals recorded in May 2006. The annual average growth rate in the number of international visitors to New Zealand was 2.4% for the year ended May 2007.

Summary

The RBNZ, for the first time since the New Zealand dollar was floated in March 1985, intervened (on 11 June 2007) in the foreign exchange market by selling New Zealand currency. The RBNZ intervened in the market a total of three times in June 2007. According to RBNZ Deputy Governor, Grant Spencer, this action was aimed at 'moderating the rise in the Kiwi dollar rather than defending a certain exchange rate level'. While the New Zealand dollar fell around 1 cent immediately following the action, the intervention failed to stop the dollar reaching a new high in late June 2007.

A net 37% of respondents in the June 2007 edition of the National Bank's (NB) monthly survey of business confidence expected business conditions to deteriorate in 12 months' time. However, firms' expectations about their own level of activity in 12 months' time rebounded from a net (positive) 8% recorded in the NB's May 2007 survey to a net 15% recorded in June 2007. The June 2007 quarter Westpac McDermott Miller Consumer Confidence Index stood at 111.4 (>100 indicates more optimism than pessimism), indicating that consumers feel relatively happy about their current financial situation.

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.