



NEW ZEALAND ECONOMIC UPDATE

July 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

Non-tradable inflation remains high

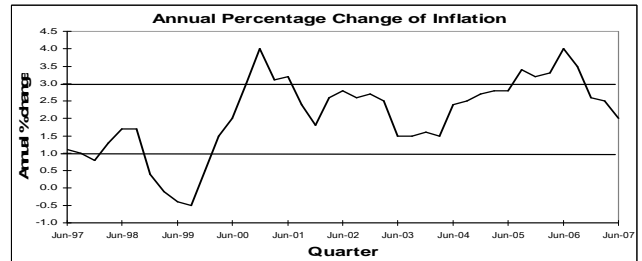
According to Statistics New Zealand the Consumer Price Index (CPI) increased by 1.0% over the June 2007 quarter. This result was greater than both the market and the Reserve Bank of New Zealand (RBNZ) expected. Annual CPI growth was modest standing at 2.0% for the June 2007 year, but annual non-tradable inflation was high coming in at 4.1% over the same period.

Growth in fuel, housing, and food prices together were responsible for the increase in CPI. While the quarterly CPI growth was modest, non-tradable inflation (which the RBNZ closely monitors) increased by 1.1% over the June 2007 quarter and 4.1% over the year to June 2007.

Nine out of eleven industry groups recorded upward price increases over the latest quarter with the price level in two groups declining. The transport group made the biggest contribution (4.01 points) to the 9.68 point quarterly CPI increase. In contrast to a decrease of 0.2% over the March 2007 quarter, transport prices increased by 2.4% over the June 2007 quarter largely caused by a surge in petrol prices (up sharply by 8.0%). Had petrol prices been unchanged, the CPI growth over the June 2007 quarter would have been 0.6% rather than 1.0%.

Prices in the housing and household utility increased 1.3% over the latest quarter driven by a 1.6% increase in prices for purchasing new housing, a modest 0.6% increase in rents, and a large 3.0% increase in residential electricity prices.

Price level increases over the June 2007 quarter for other groups included health (up 1.9%), food (up 0.5%), and communication (up 0.4%). Prices in the recreation and culture group declined by 0.8% due to lower priced airfares, package holidays (down 8.9%), and audio-visual equipment (down 5.9%). Education costs declined by 0.2% over the June 2007 quarter, partly due increased subsidies in childcare.



Source: Reserve Bank of New Zealand and Statistics New Zealand

Yet another OCR increase

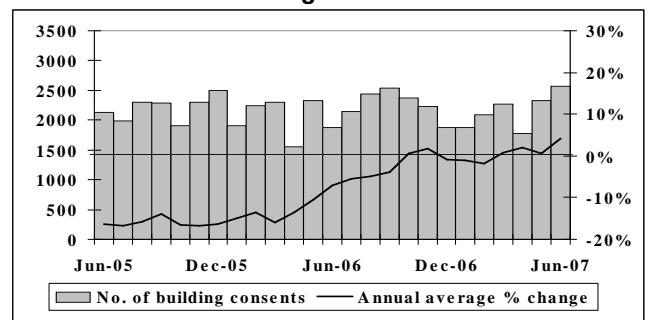
The RBNZ increased the Official Cash Rate (OCR) in late July by 25 basis points to 8.25%. Consequently, New Zealand's interest rates are among the highest in OECD countries.

The OCR increase is aimed at curtailing strong domestic demand potentially emanating from high international dairy prices (that have given farmers increased incomes) and the government's expansionary fiscal policies *inter alia*. Recent OCR increases have been a strong factor in driving the New Zealand dollar past the US\$0.80 mark, which in turn has squeezed some exporters' profit margins.

Given recent indications in Real Institute of New Zealand (REINZ) data of a possible slowing down in the housing market it seems reasonably unlikely the RBNZ will increase the OCR in its next Monetary Policy Review.

Key Indicator Trends

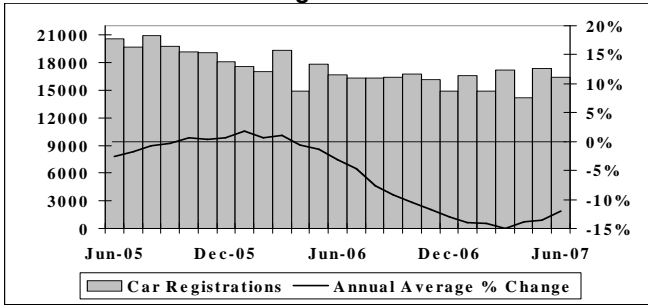
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

The number of consents issued for new dwellings in New Zealand totalled 2,574 during June 2007, with a combined value of around \$574.7 million. The annual average growth rate in the number of new building consents issued in New Zealand was 4.2% for the year ended June 2007.

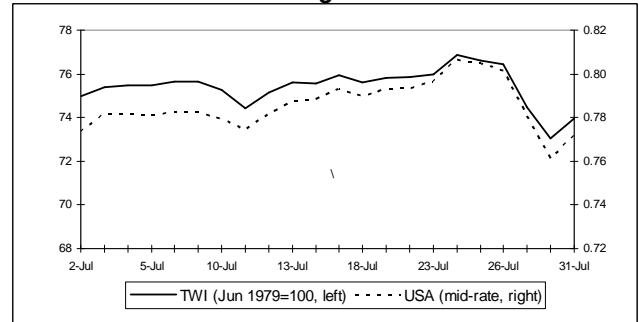
Car Registrations



Source: Land Transport Safety Authority

There was a total of 16,406 car registrations (including both new and ex-overseas car types) recorded in New Zealand in June 2007 compared to 17,356 and 16,657 car registrations recorded in May 2007 and June 2006 respectively. The annual average growth rate in the number of cars registered in New Zealand was negative 12.1% for the year ended June 2007.

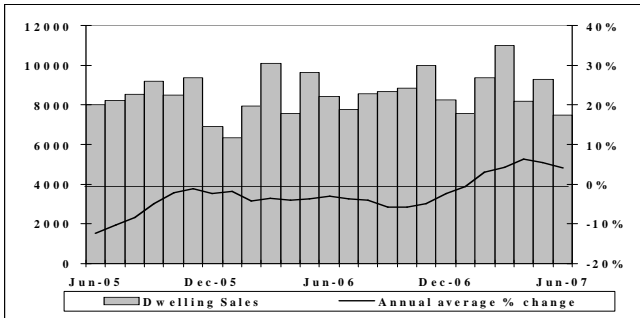
Exchange Rates



Source: Reserve Bank of New Zealand

The value of the New Zealand dollar appreciated against the US dollar over much of July 2007. During the month the benchmark of NZ\$1.00 trading against \$US0.80 was attained. However, news of weakness in the US sub-prime lending market triggered an increased level of global investor risk adversity. This in combination with the fact that the RBNZ is unlikely to increase the OCR in its next Monetary Policy Review resulted in New Zealand's exchange rates depreciating. By the end of the month the Trade Weighted Index (TWI) stood at 74.0 points.

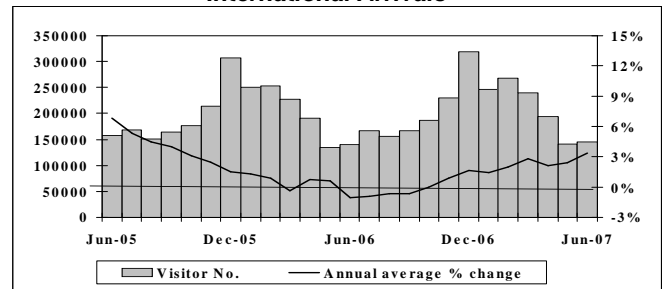
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The number of houses sold in New Zealand decreased from 9,285 recorded in May 2007 to 7,474 recorded in June 2007. The annual average growth rate in the number of houses sold in New Zealand was 4.2% for the year ended June 2007.

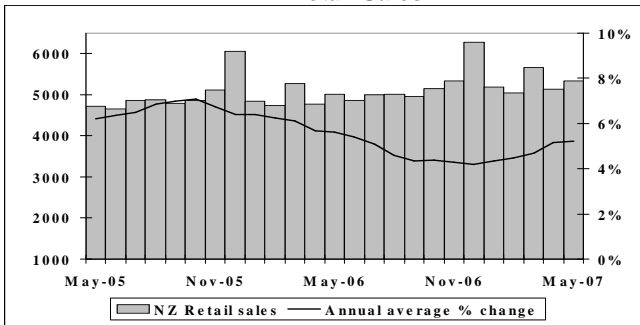
International Arrivals



Source: Statistics New Zealand

There was a total of 145,498 international visitors to New Zealand in June 2007 which was greater than the 140,755 visitors recorded in May 2007. June 2007's level was 5,607 visitors greater than the number recorded in June 2006. The annual average growth rate in the number of international visitors to New Zealand was 3.4% for the year ended June 2007.

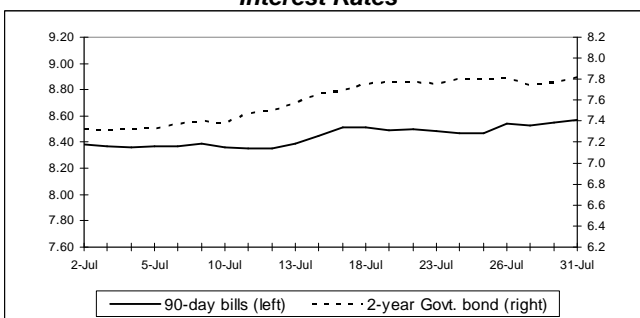
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

Compared with the \$3,873.2 million of goods sold in April 2007, national retail sales increased by \$209.7 million in May 2007 to reach \$4,048.1 million. May 2007's figure was 6.7% higher than the sales recorded in May 2006. The annual average growth rate in the value of New Zealand's retail sales was 5.2% for the year ended May 2007.

Interest Rates



Source: Reserve Bank of New Zealand

Summary

The Quarterly Survey of Business Opinion (QSBO), published by the New Zealand Institute of Economic Research (NZIER) showed that pessimism was widely spread across industries as at the June 2007 quarter. Business confidence fell significantly, with a net 30% (seasonally adjusted) of firms expecting New Zealand's general business situation to deteriorate over the next six months, down from a net 9% who possessed a similar viewpoint in the previous QSBO survey. A net 41% of manufacturers expected the economy to worsen over the second half of 2007. However, firms' level of business activity remained robust, with a net 13% reporting an increase in their activity over the June 2007 quarter and also 13% expecting to increase their level of activity in the September 2007 quarter.

The National Bank's July 2007 survey of business confidence showed that a net negative 39% of businesses expected that New Zealand's general business conditions will worsen in 12 months' time. A net 12% of businesses expected to increase their level of real business activity in 12 months' time. A net 24% of farmers expected to increase their level of activity reflecting the high level of global dairy prices.

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NORTH SHORE ECONOMIC MONITOR

▪ Schools are having to fork out big money to go environmentally friendly. The Auckland Regional Council is telling schools to replace their coal-fired heating systems with ones that comply with council regulations. Bucklands Beach Intermediate School principal Ian Fox, says their air quality permit expires in November. Elm Park School is in a similar situation and is considering installing heat pumps that could cost up to \$100,000. Beachlands Primary School principal Brian Gower, says they relied on international student funds to change their coal-boiler system to electric heating and heat pumps. "We wanted to use our ministry funding for actual school projects," he says. Regional council air quality consents acting manager Charles Kirkby says other schools have been affected. Regional council environmental policy air quality manager Kevin Mahon says New Zealand exceeds environmental standards in urban areas. Coal releases fine particles and sulphur dioxide, which pollute and damage the environment. Alternative heating systems for schools include insulation, heat pumps, gas fires and pellet burners. The Regional Council's first preferences for heating are gas or electricity followed by wood pellets.

▪ A decision to sideline debate on the controversial proposed airport at Whenuapai until after October's local body elections has been attacked by opponents. North Shore City Council has made the move at a time when Whenuapai looks set to become a hot election issue. More than 2,000 Shore submitters wrote to the Waitakere City Council opposing its plans to rezone land for an airport. Only 20 made submissions in support - including the North Shore Council. On June 27, 2007 the North Shore City Council reacted to stinging criticism from airport opponents that it hadn't undertaken detailed analysis of the effects, including noise, of a new airport on the city. Councillors voted to recommend to the new council that it undertake a detailed analysis on the effect of an airport and seek residents' views. They also suggested the new council carry out a review on its commercial interest in the North West Airport Company, a joint venture with listed company Infratil and Waitakere and Rodney Councils. Whenuapai Airport Action Group chairman Russell Stewart says it's a step in the right direction. "It is a recommendation to the incoming council." Councillor Julia Parfitt said the council move appeared to be 'politically expedient' action on the 'eve of an election'. Councillor Tony Holman believed the council should not be giving its full support to a commercial airport at Whenuapai until after research work was finished.

▪ A multi-million dollar extreme make-over is in the pipeline for Milford Shopping Centre. Major changes to its look and feel are being planned by administering company IMF New Zealand. "The mall's getting an extreme makeover" said IMF. That could include an upgrade to its food court, establishing upmarket restaurants and approving new boutique fashion and retail stores. Decor in the centre would also be in for an overhaul, with the company planning new tiling and wood surfacing, more comfortable chairs and about six chandeliers. If renovations are approved, work will start on plans to extend the centre further. Plans to upgrade the centre's ambience have been in development for more than a year. IMF New Zealand administers the assets of New Zealand Property Group, or NZPG. Its plans for Milford come on the back of winning approval for a major extension to Highbury Mall, which NZPG bought in December 2005. There is also 1,695 square metres of new shops to be developed out of the existing centre.

▪ Rates could rise even higher on the Shore if the region's eight councils are abolished in favour of a single Auckland council, says Mayor George Wood. Mr Wood's fears are shared by No More Rates group spokesman David Thornton who is campaigning for a fairer rates system. The Fix Auckland campaign, led by the Employers and Manufacturers Association, calls for public comment on creating one large Auckland council with a mayor elected at large and 21 community councils based on electorate boundaries. Fix Auckland suggests \$200 million would be saved, about \$400 per ratepayer. Mr Wood fears rates could increase even higher under a single council because North Shore has the highest value property in the region. Mr Thornton also says the proposed new community councils would have even less power than existing community boards.

▪ North Shore schools are queuing up to get on board the successful Travel-Wise programme, North Shore City's Travel-Wise co-ordinator, Nicola Maire said. The programme, run by the Auckland Regional Transport Authority (ARTA), in partnership with the council, encourages students to walk, cycle or bus to school to help reduce traffic congestion and improve students' safety and fitness. In July 2007 two new school speed zones, at Campbells Bay and Manuka primary schools are being opened, bringing the total number to seven schools with safer road environments at school travel times. School speed zones require drivers to slow down to 40km/h around schools during school travel times to create a safer environment for students to

walk and cycle to school. Manuka Primary is launching a new walking school bus this week to coincide with the opening of its school speed zone. "Each school is different, so the Travel-Wise programme involves working closely with students, staff and parents to tailor school travel plans to the complex needs of individual schools," Ms Maire said. North Shore City's transport strategy and planning group manager, Archer Davis, is urging all North Shore schools to look at the way their students and staff travel. "Schools are places where young people learn about life" said Archer Davis.

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