



NEW ZEALAND ECONOMIC UPDATE

September 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 ECONOMIC ACTIVITY REMAINED ROBUST

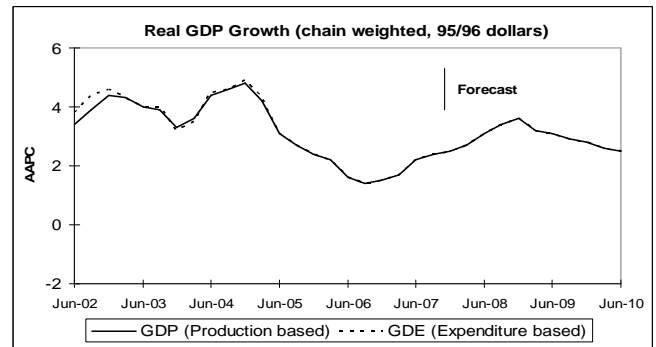
New Zealand's Gross Domestic Product (GDP) grew by 0.7% over the second quarter of 2007, following growth of 1.2% (revised) in the March 2007 quarter. Annual average GDP growth has strengthened from 1.7% for the March 2007 year to 2.2% for the June 2007 year.

The growth impetus over the June 2007 quarter mostly came from strong activity in the service sector (which is understandable given this sector accounts for two-thirds of GDP). For the June 2007 quarter, services industries grew by 0.9%, and 3.4% in the year ended June 2007.

Quarterly growth in finance, insurance and business services was 1.5% while the wholesale trade sector grew by 0.9% over this period thanks to strong demand for machinery and motor vehicles. However, a decline of 0.9% in the retail trade sector (mainly due to a decrease of 5.1% in value added by the accommodation, restaurants and bars sector) partly offset positive growth in the services sector. Primary industries edged marginally higher (up 0.2%) over the June 2007 quarter.

Mining and quarrying showed solid growth of 7.6% over the June 2007 quarter driven by increased extraction from the Maui and Pohokura oilfields. Agricultural products value added declined by 0.8% over June 2007 quarter due to reduced deer and cattle slaughtering. Annual growth in dairy farming was 2.3% while agricultural production was up by 2.2% in the year ended June 2007.

Value added by goods producing industries decreased slightly by 0.1% in the June 2007 quarter and by 1.1% over the year ended June 2007. Quarterly growth occurred in machinery and equipment (up 5.5%), wood and paper (up 4.9%), and metal products (up 4.0%) while activity in petroleum, chemical and plastic and rubber production declined (down 5.7%). Construction activity has started to level off, down 0.8% compared to the March 2007 quarter. Electricity value added declined by 1.9% over the June 2007 quarter which is the result of the increased usage of more costly thermal power generation compounded by a mild 2007 winter.



Source: Statistics New Zealand and NZIER

QUARTERLY CURRENT ACCOUNT DEFICIT SHRANK

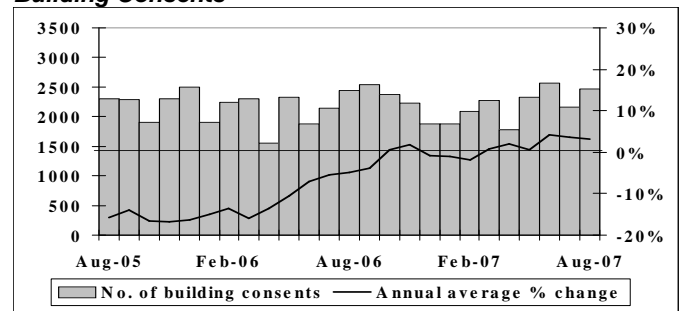
New Zealand's Balance of Payments Current Account Deficit (CAD) decreased by \$162 million (seasonally adjusted) from the March 2007 quarter to \$3,415 million in the June 2007 quarter. This took the annual CAD to an estimated 8.2% of GDP for the year to June 2007 which was smaller than the market expectation of 8.5%.

Only one-third of the reported CAD reduction came from the June 2007 quarter CAD improvement itself, while two-thirds of the reduction was the result of revisions to historical CAD data. Because overseas investors own more New Zealand assets than we own of theirs, this often leads to a large investment income deficit. The June 2007 quarter saw that figure reach \$3,014 million, reflecting the strong New Zealand GDP growth coupled by high interest rates.

However, foreign assets owned by New Zealanders also increased from \$101.5 billion a year ago to \$112.4 billion currently. There was a small surplus of \$27 million in the goods balance over the June 2007 quarter, but the services balance was in deficit by \$120 million.

KEY INDICATOR TRENDS

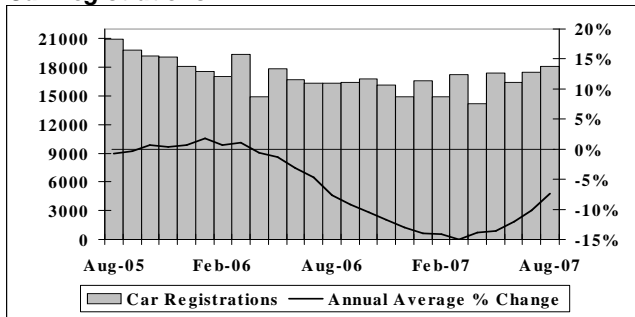
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

A total of 2,465 consents were issued for new dwellings during August 2007, the second highest level over the past 12 months. However, August 2007's level was less than the 2,545 consents issued in August 2006. The annual average growth rate in the number of new dwelling consents issued in New Zealand was 3.2% for the year ended August 2007.

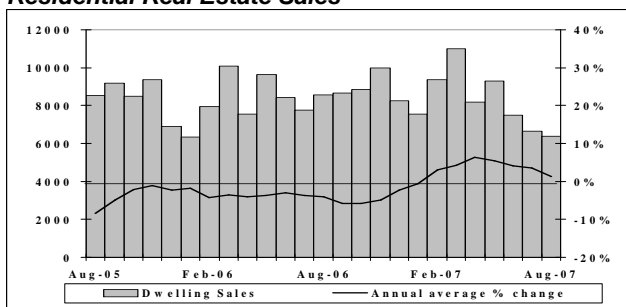
Car Registrations



Source: Land Transport Safety Authority

There was a total of 18,119 cars (including both new and ex-overseas car types) registered in August 2007, the first month over the past 15 months where an 18,000 car registration benchmark has been exceeded. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 7.4% for the year ended August 2007.

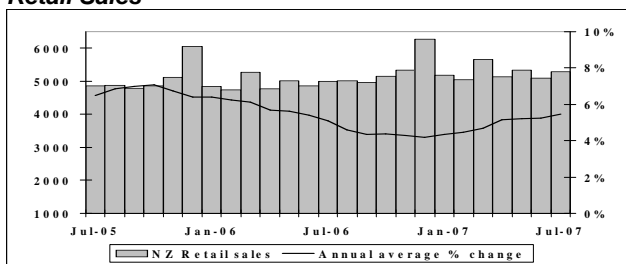
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

August 2007 saw only 6,394 houses sold in New Zealand, the second lowest trading volume recorded since January 2002 (only marginally above the 6,360 house sales recorded in January 2006). The annual average growth rate in the number of houses sold in New Zealand has slowed from 3.5% for the year ended July 2007 to 1.4% for the year ended August 2007.

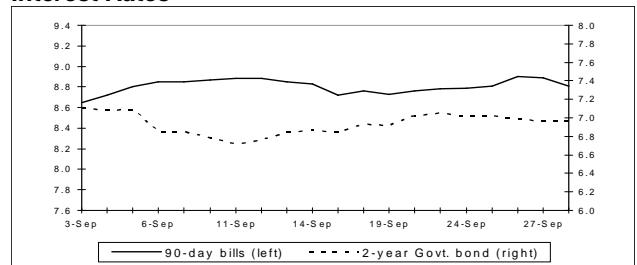
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

Strong internal demand pushed up New Zealand's retail sales in July 2007. The sales value reached \$5,279 million during the month, up from \$5,095.9 million recorded in June 2007, and greater than the \$4,992.4 million of sales recorded in July 2006. The annual average growth in the value of New Zealand's retail sales was 5.5% for the year ended July 2007.

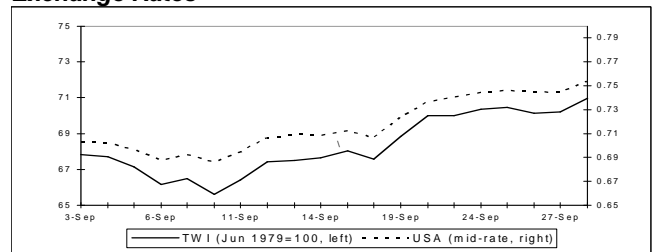
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates fluctuated during September 2007. The 90-day bill rate settled at 8.81% by the end of the month.

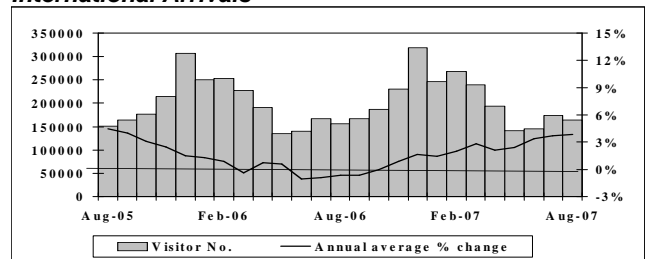
Exchange Rates



Source: Reserve Bank of New Zealand

After falling by US\$0.15 over the three weeks from mid August to early September 2007, the New Zealand dollar appreciated in value over the rest of the month triggered by the US Federal Reserve's interest rate cut and New Zealand's Current Account Deficit improvement. By the end of September 2007, NZ\$1.00 dollar traded against US\$0.75 and the Trade-Weighted Index (TWI) stood at 71.0 points.

International Arrivals



Source: Statistics New Zealand

There were a total of 164,775 overseas visitor arrivals to New Zealand during August 2007, a decrease of 8,631 visitor arrivals compared to July 2007, but an increase of 9,075 (or 5.8%) visitors compared to August 2006. The annual average growth rate in the number of visitor arrivals to New Zealand was 3.9% for the year ended August 2007.

SUMMARY

Robust GDP growth along with an improvement in New Zealand's CAD in the June 2007 quarter helped both business and consumer confidence increase. According to the National Bank's business confidence survey for the month of September 2007, a net 27% of firms expected that New Zealand's general economic conditions will deteriorate in 12 months' time. This was an improvement from a net 34% who took a pessimistic viewpoint in the National Bank's August 2007 survey. Except for manufacturing, all sectors improved in confidence from August 2007's level.

Firms' expectations on their own level of business activity as at September 2007 was almost unchanged from August 2007 with a net 17.2% of respondents expecting to increase their level of activity in 12 months' time compared with a net 16.7% in the previous survey. A net 40% of farmers expected to increase their level of activity while a net 4% and 11% of manufacturers and builders respectively expected to decrease their level of activity in 12 months' time.

The Westpac McDermott Miller (WMM) Employment Confidence Index reached a new high of 135.9 as at the September 2007 quarter reflecting the fact that the labour market remains buoyant. (An index value of greater than 100 indicates that optimists outnumber pessimists). Consumer confidence also increased over the September 2007 quarter. The WMM Consumer Confidence Index increased by 2.1 points to reach 113.5. This result was in part underpinned by economic flow-on effects of large payouts to dairy farmers.

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.

