NEW ZEALAND ECONOMIC UPDATE

October 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.

INFLATION SLOWED OVER THIRD QUARTER

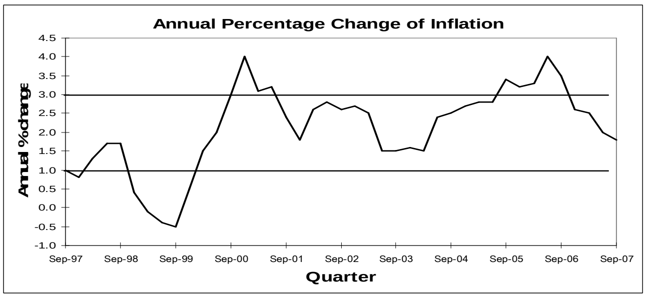
According to Statistics New Zealand (SNZ), the Consumer Price Index (CPI) grew by 0.5% in the September 2007 quarter. This followed increases of 1.0% and 0.5% over the second and the first quarters of 2007 respectively. Annual CPI growth was 1.8% for the year ended September 2007. However, core inflation (ie non-tradable inflation) stood at 3.7% for the year to September 2007. Price movements were relatively well-balanced among industry groups. Six out of eleven groups recorded price increases, while prices for the rest of the five groups declined over the September 2007 quarter.

The housing and household utilities group grew 1.8% over the past three months and 5.1% over the year to September 2007. This group remained the driving force behind quarterly inflation. Notably, local authority rates and payments and related services increased by 6.2% over the September 2007 quarter. Over this period prices for buying new houses grew by 1.8%, largely caused by increased costs of construction, fitting, and sub-contractors' charges while electricity prices grew by 0.8%. The latter a result of both energy retailers and lines companies increasing their tariffs.

Over the September 2007 quarter food prices grew by 1.2%, pushed by higher prices for grocery food (up 1.0%), fruit and vegetables (up 4.3%) and restaurant meals and ready-to-eat food (up 1.0%). However, prices of non-alcoholic beverages (down 0.8%) and meat, poultry and fish (down 0.3%) declined over this period.

One-off government policy changes attenuated CPI growth over the latest quarter. Thanks to increased government subsidies, prices in the health CPI group declined 3.1% over the September 2007 quarter and remained static on an annual basis. Notably, prices of pharmaceutical products declined by 16.2% and general practitioner fees decreased by 15.4% over the September 2007 quarter. Education prices declined by 5.2% over this period. Increased government funding has been injected into early childhood education resulting in a 32.4% decline in this subgroup's prices over the September 2007 quarter.

Taking into account the source of the decline in prices in the education and health CPI industry groups, there is little sign that underlying inflationary pressures are softening.



Source: Statistics New Zealand and NZIER

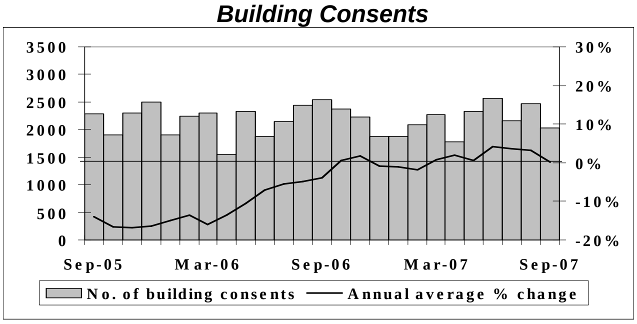
RBNZ HELD OCR AT 8.25%

As expected, the Reserve Bank of New Zealand (RBNZ) left the Official Cash Rate (OCR) unchanged at 8.25% in its October review. While the RBNZ believes that "the current level of the OCR remains consistent with future inflation of 1% to 3%", upside risks are universal over the next one to two years.

Food prices have been steadily rising; a tight labour market has put pressure on wage growth; fuel price increases are ongoing and the beginning of carbon taxes will push up electricity prices. In addition to these factors, farmers' wealth has been bolstered by strong world commodity prices and the government's expansionary fiscal policy is ongoing, both of which are potent stimulants to domestic demand. However, the RBNZ's current 'on-hold' strategy is prudent given uncertainty about the extent to which New Zealand's dwelling market may further slow down and also the potential risks around adverse flow-on effects associated with weakness in the US credit market.

KEY INDICATOR TRENDS

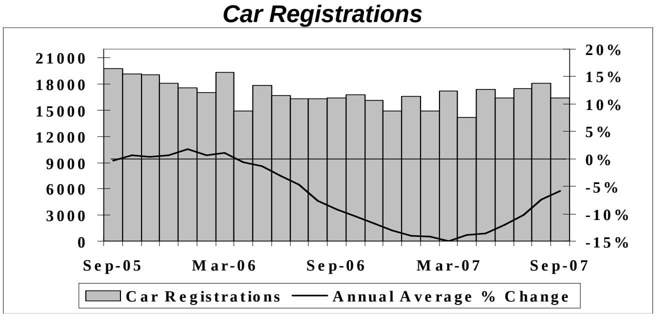
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 2,032 consents valued at around $513.5 million issued for new dwellings in New Zealand during September 2007. September 2007's level was less than the 2,465 and 2,545 consents authorised in August 2007 and September 2006 respectively. The annual average growth rate in the number of consents issued for new dwellings in New Zealand was 0.2% for the year ended September 2007.

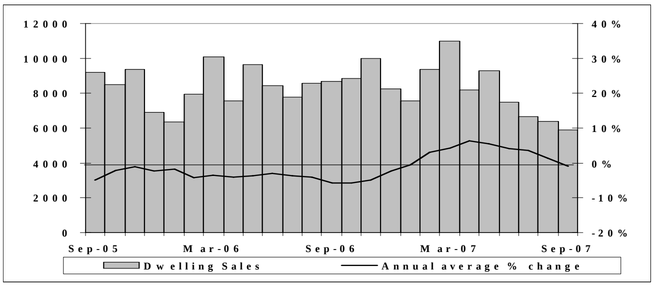
Car Registrations



Source: Land Transport Safety Authority

There was a total of 16,388 cars (including both new and ex-overseas car types) registered in New Zealand during September 2007, down from 18,119 cars registered in August 2007 but slightly greater than the 16,370 registrations recorded in September 2006. The annual average growth rate in the number of new and ex-overseas car registrations recorded in New Zealand was negative 5.9% for the year ended September 2007.

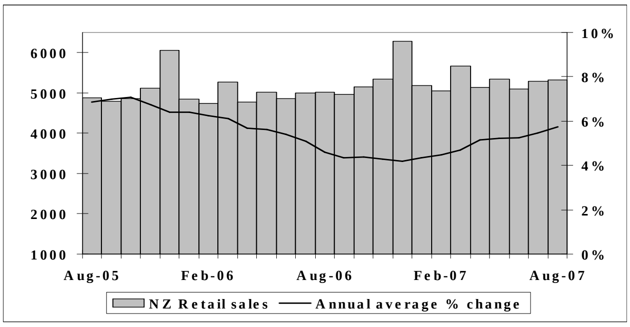
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

While New Zealand's median house sale price remained solid standing at $351,500 as at September 2007, the number of houses sold came in at 5,894 which was the lowest number recorded since September 2001 when only 5,550 houses were sold. The annual average growth rate in the number of houses sold in New Zealand was negative 0.9% for the year ended September 2007.

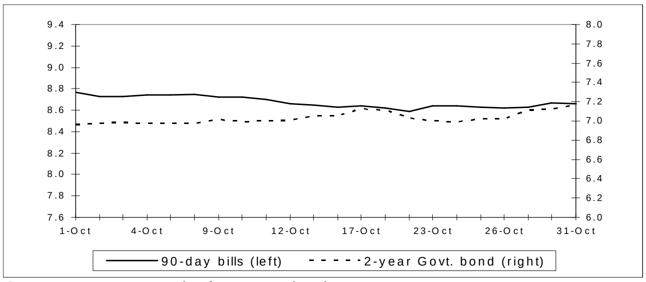
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The nominal value of New Zealand's (total) retail sales increased from $5,279 million recorded in July 2007 to $5,328.6 million recorded for August 2007. August 2007's level represented an increase of $314.2 million (or 6.3%) compared to the value of sales recorded for August 2006. The annual average growth rate in the value of New Zealand's retail sales was 5.7% for the year ended August 2007.

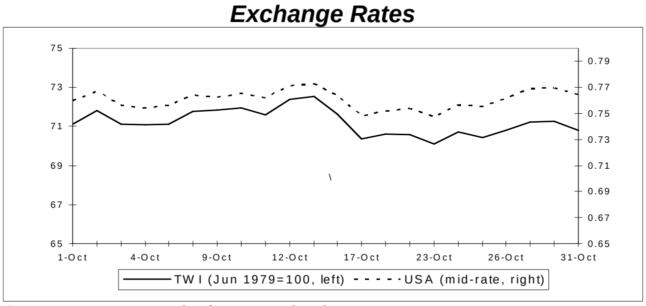
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates gradually declined over October 2007 as a response to the RBNZ holding the OCR and the modest quarterly inflation figures. The 90-day bill rate stood at 8.66% by the end of the month.

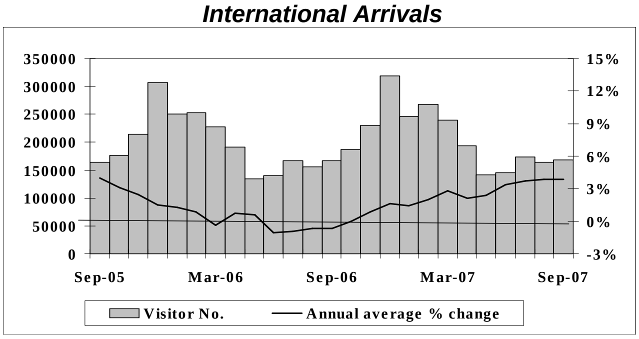
Exchange Rates



Source: Reserve Bank of New Zealand

There was some volatility in New Zealand's exchange rates over October 2007. Weaker than expected CPI data was partially responsible for a mild depreciation in the New Zealand dollar in mid October 2007, however the currency appreciated over the rest of the month. By the end of the October 2007, NZ$1.00 traded against $US 0.76 and the Trade-Weighted Index (TWI) stood at 70.8 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 168,838 international visitors to New Zealand during September 2007 representing an increase of 1.4% compared to the number of visitor arrivals recorded in September 2006. The annual average growth rate in the number of international visitor arrivals to New Zealand was 3.8% for the year ended September 2007.

SUMMARY

Despite high exchange and interest rates as well as high oil prices, business confidence has improved since the June 2007 quarter. According to the Quarterly Survey of Business Opinion (QSBO) published by the New Zealand Institute of Economic Research (NZIER) in October 2007, a net 27% firms as at the September 2007 quarter expected that the general business situation will deteriorate in the next six months. This result was much more positive than the net 37% of survey respondents who took a negative viewpoint in the NZIER's last survey.

Notably, manufacturers were optimistic about future economic conditions with a net 28% expecting an increase in their output over the next three months compared with a net 6% who expected a decline in their output to occur over the September 2007 quarter. Builders also felt optimistic with a net 9% planning to expand their output in the December 2007 quarter. On a seasonally adjusted basis, firms' expectations about their own level of trading activity in the three months ahead compared to their level of activity over the September 2007 quarter was largely unchanged. A net 12% of firms expected an increase in their level of activity compared to a net 13% of firms in the NZIER's June 2007 quarter survey. A net 5% of firms hired new staff in the June 2007 quarter while a net 12% intended to hire more staff over the December 2007 quarter. Capacity utilisation has eased slightly but remains at a high level standing at 91.3% as the September 2007 quarter compared to 92.3% as at the September 2006 quarter.

The National Bank's (NB) October 2007 survey of business confidence showed that a net 13% of firms expected that general business conditions will worsen in 12 months' time. This was an improvement from a net 27% of respondents who were pessimistic in the NB's September 2007 survey. Notably, a net (positive) 9% of firms in the construction industry expected conditions to improve in 12 months' time. Firms' expectations about their (own) level of real business activity in 12 months' time stood at a net 20%. This indicates that businesses may be expecting a robust level of growth in the economy over the coming year.