



NEW ZEALAND ECONOMIC UPDATE

November 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.

SEPTEMBER 2007 QUARTER HLFS RESULTS

Statistics New Zealand (SNZ) released the September 2007 quarter Household Labour Force Survey (HLFS) results in early November 2007. Over the September 2007 quarter the level of employment decreased by 7,000 people (0.3%) to 2,150,000 people (seasonally adjusted) and the unemployment rate declined by 0.1 percentage points (pps) to 3.5% (seasonally adjusted). This was the lowest unemployment rate recorded since the survey began 21 years ago.

Although the number of people employed in part-time jobs increased by 6,000 people (1.3%) to 491,000 people over the September 2007 quarter, full-time employment declined by 10,000 people (0.6%) to 1,660,000 people. Annually, the number of people employed in part-time employment grew by 22,000 people (1.9%) but full-time employment declined by 5,000 people (0.3%), the first full-year decrease recorded since March 1999.

Disaggregating the HLFS data by gender shows that male employment remained strong, with part and full-time employment increasing by 1.5% and 0.2% over the September 2007 quarter respectively. Conversely, female employment contracted by 12,000 people (1.2%) over this period, caused entirely by a 2.4% decline in full-time female employment (while females employed in part-time work actually grew 0.7% over the quarter).

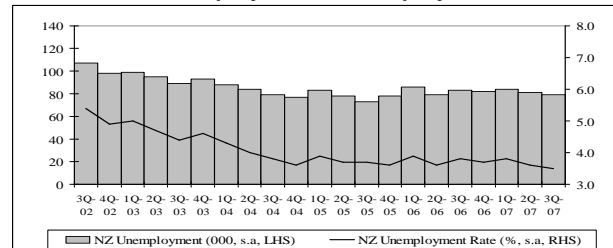
The labour force participation rate declined by 0.5 pps over the September 2007 quarter to 68.3%. This result was driven by a decline in the female participation rate, which decreased by 0.9 pps to 61.2%. The male participation rate was static at 75.7% over this period.

The key factor behind the decline in employment was not weak economic activity, but partially stemmed from changes in the tax/benefit system. Under the Working For Families (WFF) scheme, some workers face effective marginal tax rates of up to 80% which can function as disincentive to employment. The number of people employed in part-time work increased over the September 2007 quarter while those employed in full-time work decreased over this period. The total number of hours worked, the participation rate and the level of female employment all decreased over the September 2007 quarter.

Over the September 2007 quarter the number of people unemployed decreased by 2,000 (down 2.1%) to 79,000 people. This was due to a fall in female unemployment, while male unemployment remained unchanged. Long-

term unemployment (i.e. those unemployed for two or more years) descended to a new low of 1,300 people over this period.

Number unemployed and unemployment rate



Source: Reserve Bank of New Zealand and Statistics New Zealand

MERCHANDISE TRADE IMPROVED IN OCTOBER 2007

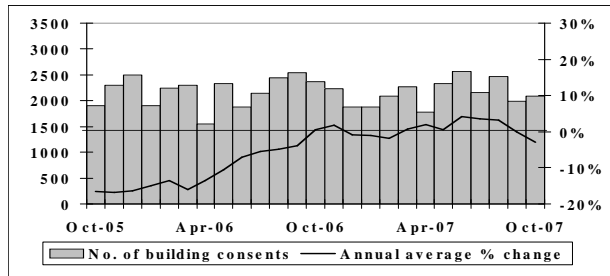
The value of New Zealand's merchandise exports reached a record high of \$3.4 billion in October 2007, a huge increase of \$706 million compared to the level recorded for October 2006. The boom in monthly merchandise exports was driven by strong activity in crude oil exports, along with buoyant dairy exports such as milk powder, butter and cheese.

Thanks to the new Tui oil field that opened in August 2007, petroleum and products contribution increased by \$251 million to \$314 million over the period from October 2006 to October 2007. October 2007's export value of petroleum and products was the highest ever recorded in New Zealand. Exports in the commodity group increased by \$328 million from October 2006's level to reach a new high in October 2007 with more than half the increase (\$181 million) coming from milk powder exports. However, the value of meat and edible offal exports in October 2007 decreased by \$36 million compared to the value recorded for October 2006, and timber products, including logs, wood, wood pulp and waste paper decreased by \$40 million over his period.

Imports levels are also booming. The total value of goods imported into New Zealand reached \$4.1 billion in October 2007, the first time that the \$4.0 billion mark has been exceeded on a monthly basis. The monthly trade balance for October 2007 was a deficit of \$690 million.

KEY INDICATOR TRENDS

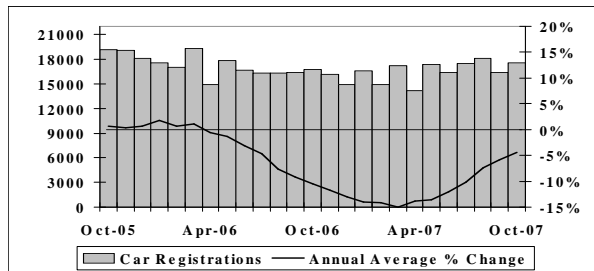
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 2,085 consents worth \$528.3 million issued for new dwellings in New Zealand during October 2007. While this was stronger than the 1,988 consents (revised figure) issued in September 2007, it failed to match the 2,377 consents issued in October 2006. The annual average growth rate in the number of consents issued for new dwellings in New Zealand was negative 2.9% for the year ended October 2007.

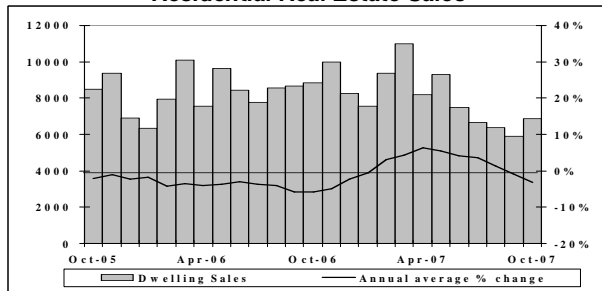
Car Registrations



Source: Land Transport Safety Authority

There was a total of 17,583 cars (including both new and ex-overseas car types) registered during October 2007, which was an increase of 1,195 cars compared to the number registered in September 2007, and an increase of 4.7% compared to the number recorded in October 2006. The annual average growth rate in the number cars registered in New Zealand was negative 4.4% for the year ended October 2007.

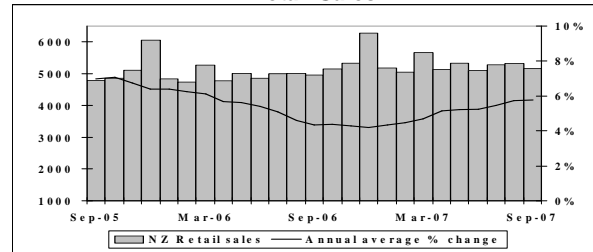
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

There was a total 6,854 houses in sold New Zealand during October 2007, with the median sale price standing at \$350,000. While October 2007's sales represented an increase from the 5,894 houses sold in September 2007, they numbered around 2,000 less than the number of house sales recorded in October 2006. The annual average growth rate in the number of houses sold in New Zealand was negative 3.2% for the year ended October 2007.

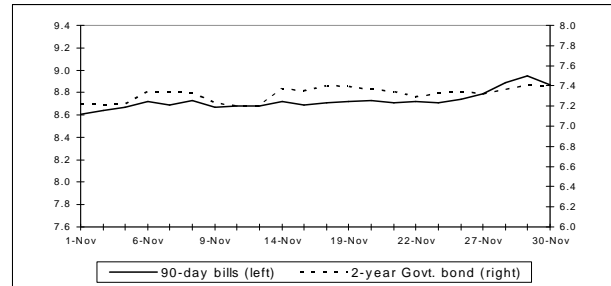
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The nominal value of New Zealand's retail sales stood at \$5,171.4 million during October 2007, down from \$5,328.6 million of sales recorded in August 2007, but greater than \$4,968.8 million of sales recorded in September 2006. The annual average growth rate in the nominal value of New Zealand's retail sales was 5.8% for the year ended September 2007.

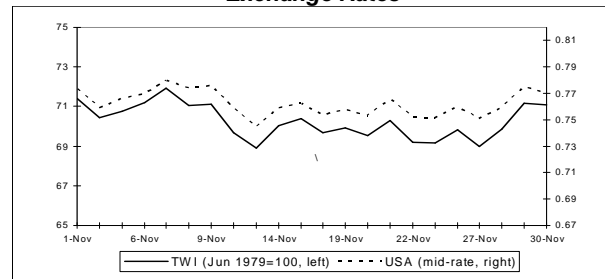
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates were relatively stable during the first three weeks of November 2007, before accelerating in the fourth week of the month. By the end of the month the 90-day bill rate had settled at 8.87%

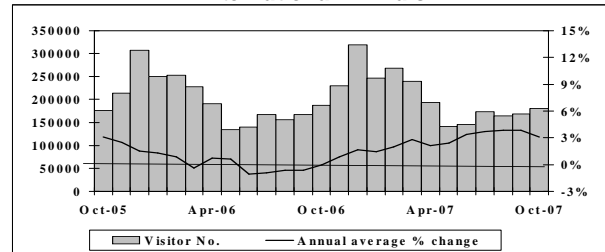
Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates were volatile in November 2007. The weak US dollar pushed the Kiwi dollar up in late November 2007. By the end of the month, NZ\$1.00 traded against US\$0.77, and the Trade-Weighted Index (TWI) stood at 71.1 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 180,000 international visitor arrivals to New Zealand during October 2007, up from 168,838 visitor arrivals recorded in September 2007, but still less than the 186,639 visitor arrivals recorded in October 2006. The annual average growth rate in the number of international visitor arrivals to New Zealand was 3.1% for the year ended October 2007.

SUMMARY

There is clear evidence that the domestic housing market is slowing down and retail sales have also slowed. This indicates that domestic demand has started to lose momentum. Internationally, oil prices have significantly increased while weakness in the US sub-prime credit market remains a worry. Therefore, it comes as no

surprise that New Zealand business confidence has declined in November 2007.

According to the National Bank's November 2007 Business Outlook survey, a net 20% of surveyed firms expected that the general business conditions will deteriorate in 12 months' time, down from a net 13% who took a pessimistic view in the previous month. Negative sentiment was spread across all sectors, with farmers being the most negative about the economy. However, firms felt relatively positive about their own level of real business activity in 12 months' time with a net 16% expecting to increase their level of activity. Those in the service sector were the most optimistic (a net 21%), followed by farmers (a net 15%) and retailers (a net 13%).

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