



NEW ZEALAND ECONOMIC UPDATE

December 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 GROWTH WAS MODEST

According to Statistics New Zealand (SNZ), Gross Domestic Product (GDP) grew by 0.5% in the September 2007 quarter. This result was broadly in line with the market's expectation of 0.4% and the Reserve Bank of New Zealand's (RBNZ) projection of 0.6%. Compared to the same quarter of last year, GDP grew 3.3%, while annual growth was 2.7% for the year ended September 2007.

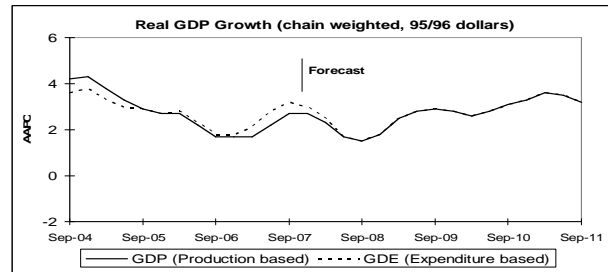
There were very few surprises in the latest GDP results. Nine of out eleven sectors recorded positive growth, one sector was static, and the remaining two sectors declined. The driving force behind the September 2007 quarter's growth was a boost in oil and services production. Primary industries grew by 3.9% over the September 2007 quarter and 2.8% for the September 2007 year.

Value added in the mining and quarrying industries grew by 28.1% over the September 2007 quarter largely driven by the Tui Oilfield starting production. Service industries, while not as strong as in the previous quarter, grew by 0.7% over this period. Finance, insurance and business service activity increased 0.8% over the same period.

Helped by increased activity in food, beverage and tobacco services, wholesale trade grew by 1.4% over the September 2007 quarter. This was stronger than the 0.4% growth recorded in the retail trade group over this period. Goods-producing industries declined by 1.4% over the September 2007 quarter due to reduced pastoral processing which was the result of poor grass growing conditions. Energy production (eg electricity) declined by 3.8% over this period due to a warm 2007 winter. On a year-on-year basis, output in the goods-producing sectors declined 0.3% for the year to September 2007.

Looking at expenditure based GDP, household spending softened a bit over the September 2007 quarter but nevertheless increased by 0.3%. Investments in residential building jumped by 1.9%, while non-residential construction grew by 3.9% over this period. Over the September 2007 quarter there was a 13.9% decline in transport equipment investment, while business investment in fixed assets decreased by 0.8% for the second quarter in a row.

External trade growth was flat over the September 2007 quarter. Export volumes declined by 0.6% (driven by decreased dairy exports), while imports grew by 0.2%. However, government expenditure grew by 2.1% boosted by more funds injected into education, health, public order and safety services.



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

BRIEF REVIEW OF 07/08 HYEFU

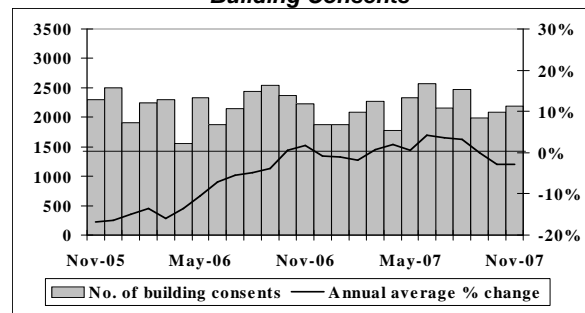
Treasury released the 07/08 Half Year Economic Fiscal Update (HYEFU) just before Christmas. The HYEFU confirmed the existence of huge operating surplus, giving the government a very strong fiscal position.

According to the HYEFU, the forecast for the operating surplus has been revised from \$6,431 million (as reported in the May 2007 budget) to \$7,388 million for the 2008 fiscal year, and is forecasted to average around \$6.0 billion per year over the next four years. As a result, the debt ratio will fall from 18.5% of GDP in 2007 to 15.6% by 2012, despite there being little change in the bond programme over this period.

Treasury also adjusted its short-run forecast for GDP growth from 2.6% as reported in the 2007 Budget to 3.0% for the March 2008 year, and from 1.6% to 2.1% thereafter. In summary, an improved economic outlook, together with no forecast changes in operating expenses, indicates plenty of room for tax cuts to be announced in the 2008 budget.

KEY INDICATOR TRENDS

Building Consents

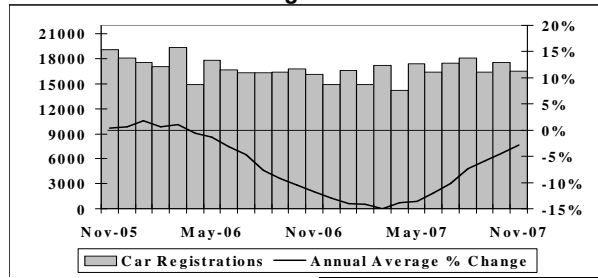


Source: Dept of Statistics Building Surveys and Vitals Section

There was a total of 2,189 new building consents with a combined value of around \$567.5 million issued for residential dwellings in New Zealand during November 2007. This represented an increase of 104 consents compared to the number recorded in October 2007 but a decrease of 43 consents compared to the number issued in November 2006. The annual average growth rate in the number of new building consents issued for residential

dwellings in New Zealand was negative 2.8% for the year ended November 2007.

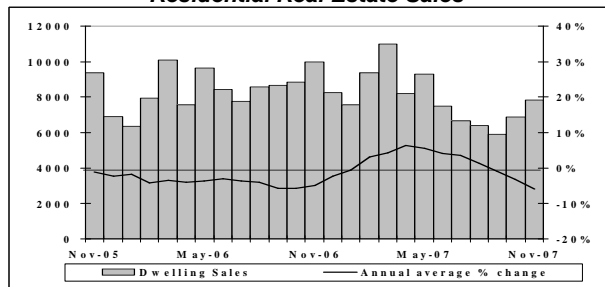
Car Registrations



Source: Land Transport Safety Authority

A total of 16,491 cars (including both new and ex-overseas car types) were registered during November 2007, down from 17,583 cars registered in October 2007, but greater than the 16,117 cars registered in November 2006. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 2.9% for the year ended November 2007.

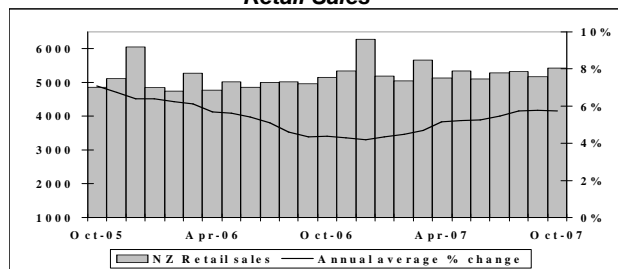
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 7,837 houses were sold in New Zealand during November 2007, outnumbering the 6,854 houses sold in October 2007. The median sale price reached a record high of \$352,000 as at November 2007. However, the number of house sales recorded in November 2007 was less than the 9,990 sales recorded in November 2006. The annual average growth rate in the number of houses sold in New Zealand was negative 6.0% for the year ended November 2007.

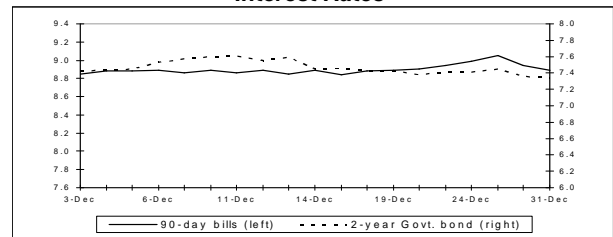
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The nominal (total) value of New Zealand's retail sales increased from \$5,171.4 million in September 2007 to \$5,430.4 million in October 2007. October 2007's level was also greater than the \$5,145.7 million of sales recorded in October 2006. The annual average growth rate in the nominal value of retail sales recorded in New Zealand was 5.7% for the year ended October 2007.

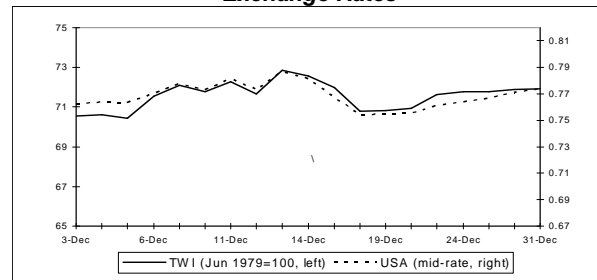
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates trended upwards for most of December 2007 before falling over the last few days of the month. By the end of December 2007, the 90-day bill rate stood at 8.89%.

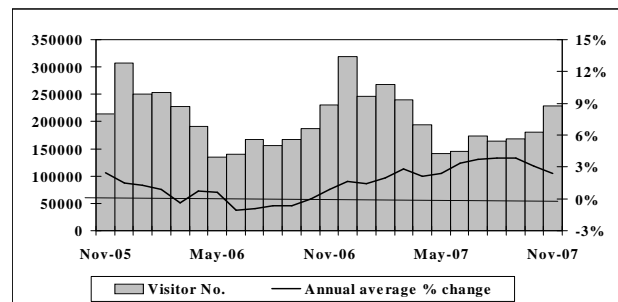
Exchange Rates



Source: Reserve Bank of New Zealand

The US Federal Reserve cut US interest rates by 25 basis points in mid December 2007. This triggered New Zealand's exchange rates to depreciate rapidly. However, New Zealand's stronger than expected September 2007 quarter GDP results helped the Kiwi dollar appreciate to US\$0.774 and the Trade-Weighted index (TWI) to settle at 71.9 points by the end of December 2007.

International Arrivals



Source: Statistics New Zealand

The number of international visitor arrivals to New Zealand increased from 179,947 visitors in October 2007 to 228,813 visitors in November 2007. The number of visitor arrivals recorded in November 2007 represented a 0.5% decrease compared to the 229,913 visitors arrivals recorded in November 2006. The annual average growth rate in the number of visitor arrivals to New Zealand was 2.4% for the year ended November 2007.

SUMMARY

According to the National Bank's (NB) December 2007 survey of business confidence, confidence has once again declined. A net 25% of surveyed firms expected general business conditions to deteriorate in 12 months' time, down from a net 20% who were pessimistic in the November 2007 survey carried out by the NB. Pessimism was widespread with manufacturers replacing farmers as the most pessimistic group in New Zealand's economy.

Respondents were more confident about their own business future with a net 18% (compared with a net 16% in November 2007) expecting to increase their level of real business activity in 12 months' time. In their belief that their organisation's level of real business activity will have increased in 12 months' time service enterprises were the most optimistic group (a net 22%) while the number of optimistic and pessimistic builders were equal and the rest

of the surveyed groups were located in the range of a net 15% - 17%.

The Westpac McDermott Miller (WMM) Consumer Confidence Index declined from 113.5 as at the September 2007 quarter to 110 as at the December 2007 quarter (>100 indicates optimists outnumber pessimists). While the level of confidence remains positive, the level has fallen by 10 points compared to the level surveyed in December 2006.

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