



NEW ZEALAND ECONOMIC UPDATE

January 2008

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 INFLATION ABOVE EXPECTATIONS

According to Statistics New Zealand (SNZ) the Consumer Price Index (CPI) grew by 1.2% over the December 2007 quarter. This result was well above the market and Reserve Bank of New Zealand's (RBNZ) expectations and followed increases of 0.5% and 1.0% recorded over the September 2007 and June 2007 quarters respectively. Annual CPI growth was 3.2% for the 2007 calendar year.

Nine out of eleven CPI groups grew over the December 2007 quarter. Key contributors to this growth were transport, food and housing and household utilities. However, prices in the communication and education groups declined which partly offset the heated headline inflation. The transport group experienced the greatest increase in prices over the latest quarter contributing 5.44 points to a total 11.88 point gain in the CPI over this period.

Prices in the transport group grew by 3.2% over the December 2007 quarter with petrol prices increasing by 5.4%. Had fuel prices remained unchanged, the CPI would have changed by 1.0% over the latest quarter. International airfares jumped 11.9%, partly due to higher prices for flights to Australia. Domestic air transport prices declined by 4.6% thanks to an intensified level of competition. On an annual basis, transport prices grew by 5.9%, with petrol prices up by 16.9% for year to December 2007.

Food prices grew by 1.5% over the December 2007 quarter (and 4.4% for the year to December 2007) pushed up by higher grocery food (up 3.4%), meat, poultry, and fish (up 2.1%), restaurant meals and fast-food (up 1.0%) and non-alcoholic beverages (up 1.6%).

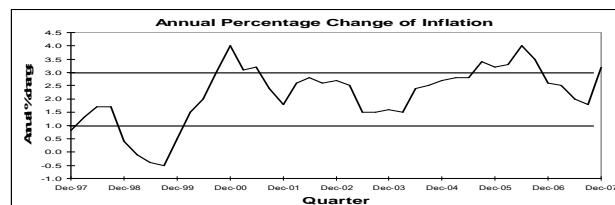
Increases in the prices of dairy products over the December 2007 quarter were responsible for a large proportion of the increase in grocery food prices with the prices of cheese, butter and fresh milk growing by 17.0%, 41.2% and 4.9% respectively. However, the price level of fruit and vegetables declined by 3.9% over the December 2007. Overall, the food group contributed 2.67 points to the 11.88 increase in CPI over this period.

The housing and household utility group added 2.06 points to the CPI increase over the latest quarter. Prices in this group increased by 0.9% over the December 2007 quarter which was half the quarterly growth recorded over the September 2007 quarter in this group.

Electricity prices increased by 1.2% over the December 2007 quarter, while costs of new housing and rental fees increased by 1.3% and 0.5% respectively over this

period. Over the year to December 2007 the housing and household utility group grew by 5.2%. Prices in the communication group declined by 0.5% while prices in the education group declined by 0.3%.

Inflation



Source: Statistics New Zealand and Reserve Bank of New Zealand

RBNZ LEFT INTEREST RATES UNCHANGED

RBNZ held the Official Cash Rate (OCR) at 8.25% in its latest Monetary Policy Review held in late January 2008. This was despite recent turmoil in world share markets and the US Federal Reserve's dramatic cut in the federal funds rate.

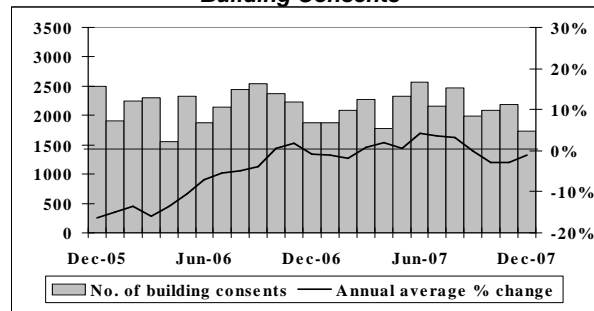
Overall, the RBNZ's commentary had a similar tone to that presented in its December 2007 Monetary Policy Statement. Strong concerns were expressed about the inflation outlook carefully balanced against a consideration of the downside risks stemming from the US and European slowdown.

New Zealand's persistent inflation pressures are due to expansionary fiscal policy, rising food and energy prices, escalating transport costs and strong dairy-related spending. However, the RBNZ acknowledged that the economic outlook for US and European growth has deteriorated which may be anti-inflationary to New Zealand's situation.

Overall, the chances of the RBNZ cutting interest rates in 2008 are low unless growth in Australia and Asia's economies dramatically slows.

KEY INDICATOR TRENDS

Building Consents

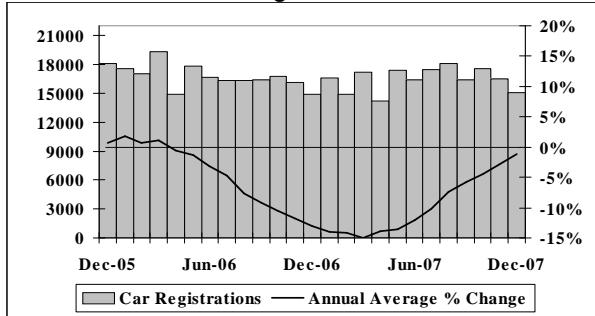


Source: Department of Statistics Building Surveys and Vitals Section

A total of 1,738 new building consents valued at around \$436.2 million were issued for residential dwellings in

New Zealand during December 2007. This was the second lowest level recorded over the past two years. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 1.1% for the year ended December 2007.

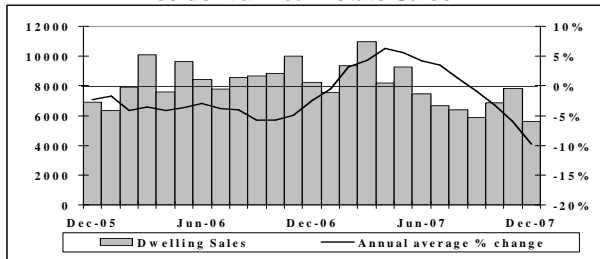
Car Registrations



Source: Land Transport Safety Authority

The number of new and ex-overseas cars registered in New Zealand totalled 15,124 cars in December 2007. This represented a decrease from the 16,491 cars registered in November 2007, but an increase from the 14,916 cars registered in December 2006. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 1.29% for the year ended December 2007.

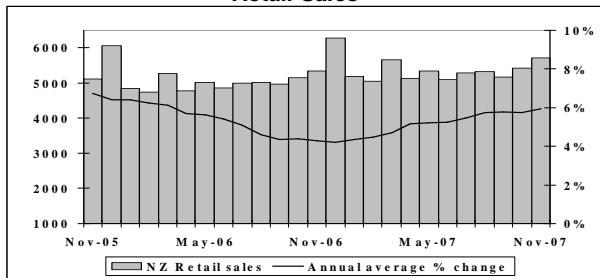
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 5,597 houses were sold in New Zealand during December 2007. This was the lowest level recorded since October 2001. The median sale price also declined by \$7,000 from the level as at November 2007 to \$345,000 as at December 2007. The annual average growth rate in the number of houses sold in New Zealand was negative 9.8% for the year ended December 2007.

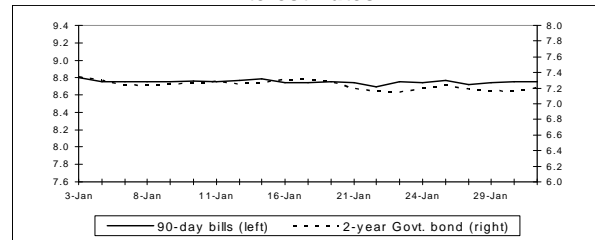
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

New Zealand's nominal retail sales grew steadily in November 2007 with the combined value of sales standing at \$5,710.8 million. This represented an increase compared to the \$5,430.4 million of sales recorded in October 2007, and an increase of \$370.3 million (or 6.9%) compared to the value of sales recorded in November 2006. The annual average growth rate in the value of New Zealand's total nominal retail sales was 5.9% for the year ended November 2007.

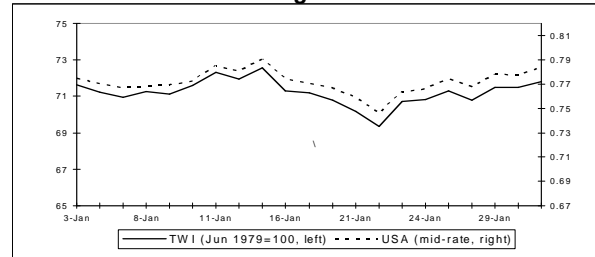
Interest Rates



Source: Reserve Bank of New Zealand

The average 90-day bill rate for January 2008 was 8.75% compared to 8.90% for December 2007. The average rate for January 2007 was 7.70%. Average yields for two-year government bonds were for 7.47% and 7.24% for December 2007 and January 2008 respectively while the average rate as at January 2007 stood at 6.52%.

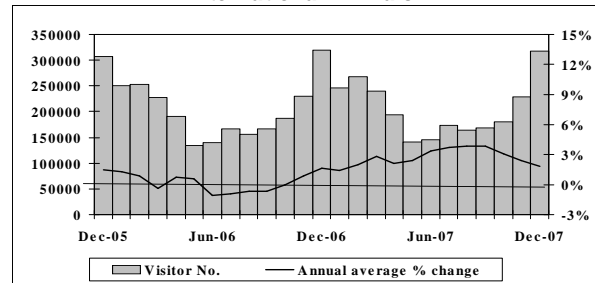
Exchange Rates



Source: Reserve Bank of New Zealand

The recent crash in the international financial markets impacted negatively on investors' confidence. This contributed to New Zealand's exchange rates depreciating in mid January 2008. However, the Kiwi dollar regained ground later on in the month with NZ\$1.00 trading US\$0.78, and the Trade-Weighted Index (TWI) standing at 71.8 points.

International Arrivals



Source: Statistics New Zealand

The number of international visitor arrivals to New Zealand totalled 317,259 during December 2007. This was the highest level recorded over the past 12 months but was less than the 319,040 visitor arrivals recorded in December 2006. The annual average growth rate in the number of visitor arrivals to New Zealand was 1.8% for the year ended December 2007.

SUMMARY

World stock markets went into free-fall on January 22, 2008. Share prices experienced their worst decline in a single day since 11 September 2001. The Australian ASX-200 plummeted 7.0%, the UK FTSE-100 declined by 5.5%, the Nikkei (Japan) lost 5.7% and the Hang Seng (Hong Kong) declined by 8.0%. As a response the US Federal Reserve cut the Federal Funds Rate to stimulate the US economy and to attenuate investor fears of an impending US recession.

The New Zealand economy was more or less immune from the external shocks, however, a decline in US interest rates will put upward pressure on New Zealand's exchange rates. This is clearly bad news for some of New Zealand's exporters.

The December Quarterly Survey of Business Opinion (QSBO) published by The New Zealand Institute of Economic Research (NZIER) showed that business confidence is still relatively subdued. A net 26% (not s.a) of firms expected the general economic situation to deteriorate in the next six months.

On a seasonally adjusted basis a net 6.0% of firms reported an increase in their own level of business activity over the December 2007 quarter while a net 12% expected to increase their level of activity from the December 2007 quarter's level over the March 2008 quarter.

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