NEW ZEALAND ECONOMIC UPDATE

March 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.

NATIONAL ECONOMIC ACTIVITY STILL BUOYANT

Following an increase of 0.5% in the September 2007 quarter, New Zealand's Gross Domestic Product (real GDP) grew by 1.0% in the December 2007 quarter. This result was better than both the market (0.8%) and the Reserve Bank (0.7%) expected. Annual GDP growth was 3.1% for the year ended December 2007.

The expenditure based GDP measure revealed that a strong level of activity in both business investment and exports provided the impetus for GDP growth over the December 2007 quarter. Gross fixed capital formation increased 3.9% over the past three months. In particular, investment in non-residential buildings grew by 16.3% in the December 2007 quarter while intangible assets (eg software and mining rights) grew by 10.2% and activity in plant, machinery and equipment grew by 4.0% in this period.

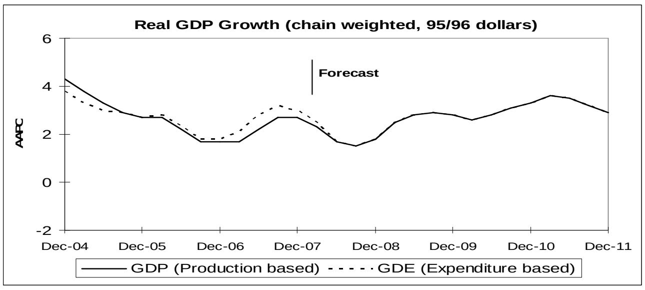
Export volumes grew 5.4% over the December 2007 quarter compared to a decline of 0.1% in the September 2007 quarter. Annual growth in export volumes was 3.6% for year to December 2007. Merchandise exports grew by 8.1% over the December 2007 quarter due to strong growth in dairy (23.3%) and petroleum products (thanks to the Tui Oil Field). Import volumes grew by 0.7% in the September 2007 quarter and 4.3% in the December 2007 quarter largely caused by imported capital goods (up 9.3%).

Household spending recorded modest growth of 0.5% over the December 2007 quarter driven by expenditure on durables and services. This was marginally greater than the 0.4% growth recorded in the September 2007 quarter.

From an industry perspective, nine out of eleven sectors showed positive growth with the service sectors remaining the main source of growth. Finance, insurance, business services combined made a 0.4 percentage point contribution to the December 2007 quarterly GDP growth.

Primary industries grew by 4.8% over the December 2007 quarter. In this period value added by agriculture grew by 3.5%, while mining and quarrying grew by 16.5%. Value added by the fishing sector declined by 18.2% primarily due to a reduction in fishing quotas for Hoki and Orange Roughy which took effect from October 2007.

Value added (VA) by goods producing industries grew by 1.9% in the December 2007 quarter. Manufacturing VA increased by 2.2% in this period. This growth was mostly driven by value added in food, beverage and tobacco manufacturing (up 5.8%) and machinery and equipment manufacturing (up 6.9%). Construction activity increased by 2.4% in the December 2007 quarter. This was due to growth in value added in construction trade services and the non-residential building sector while residential building activity in the December 2007 quarter declined.



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

ANNUAL CURRENT ACCOUNT DEFICIT IMPROVED

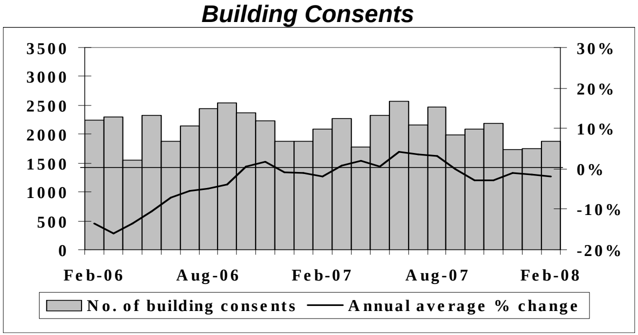
According to Statistics New Zealand (SNZ), the seasonally adjusted quarterly current account deficit (CAD) improved from $3,583 million in the September 2007 quarter to $3,094 million in the December 2007 quarter. Overall there has been a narrowing in the annual CAD from $14.3 billion (or 8.4% of GDP) for the year ended September 2007 to $13.8 billion (or 7.9% of GDP) for the year to December 2007.

Driven by increasing international dairy prices and the Tui Oil Field's production, the goods balance improved significantly. A surplus of $85 million was recorded in the December 2007 quarter in contrast to a deficit of $732 million recorded in the September 2007 quarter.

Increases in both export volumes and prices pushed the total value of exports to $10,624 million, outnumbering the $10,540 million of imported goods. However, the services balance for the first time since 2001, showed a small deficit of $7 million, while investment income deficit worsened by $87 million to reach $3,313 million.

KEY INDICATOR TRENDS

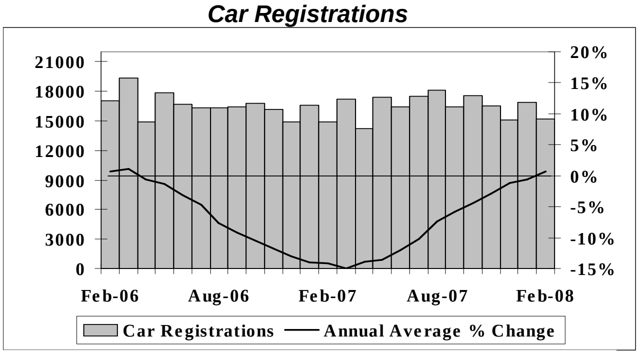
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 1,874 new building consents worth around $500.8 million issued for residential dwellings in New Zealand during February 2008. Although this was an increase of 131 consents from January 2008's level, the number of consents issued in February 2008 was less than the 2,092 consents issued in February 2007. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 1.8% for the year ended February 2008.

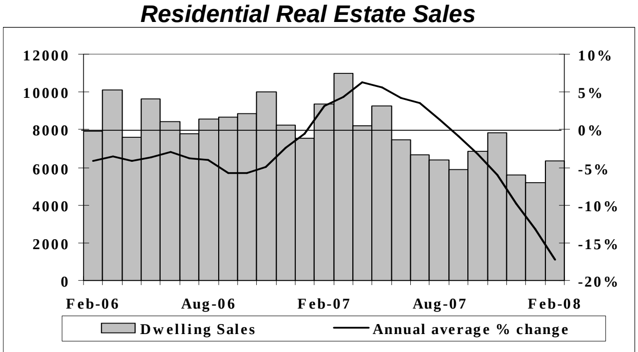
Car Registrations



Source: Land Transport Safety Authority

National car registrations (including both new and ex-overseas car types) declined from 16,877 cars registered in January 2008 to 15,201 cars registered in February 2008. February 2008's level represented an increase from the 14,919 car registrations recorded in February 2007. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was 0.7% for the year ended February 2008.

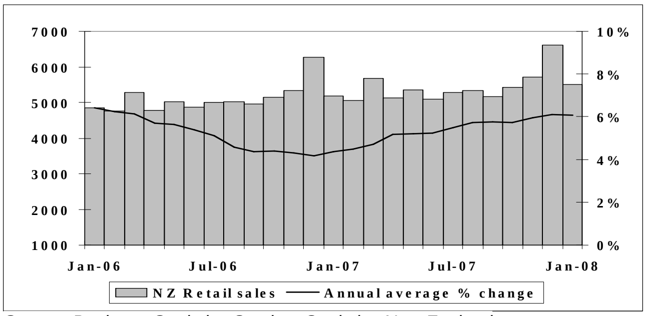
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand (REINZ)

There was a total of 6,356 houses with the median sale price of $337,500 sold in New Zealand during February 2008. The volume of sales recorded in February 2008 was less than the 9,357 houses sold in February 2007. The annual average growth rate in the number of houses sold in New Zealand was negative 17.2% for the year ended February 2008.

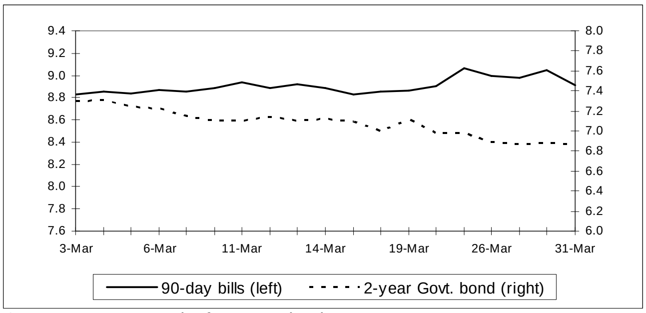
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's nominal retail sales totalled $5,513.3 million in January 2008, down from a record high of $6,612.9 million recorded in December 2007, but greater than the $5,185 million recorded in January 2007. The annual average growth rate in the (total) nominal value of New Zealand's retail sales was 6.1% for the year ended January 2008.

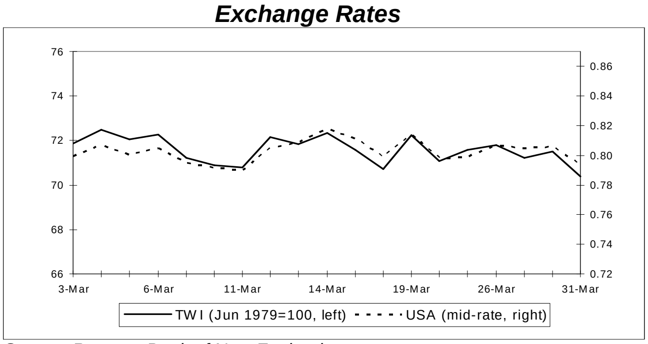
Interest Rates



Source: Reserve Bank of New Zealand

While New Zealand's wholesale interest rates remained high in March 2008, two-year government bond yields started to ease. By the end of the month the 90-day bill rate had also decreased, standing at 8.91%.

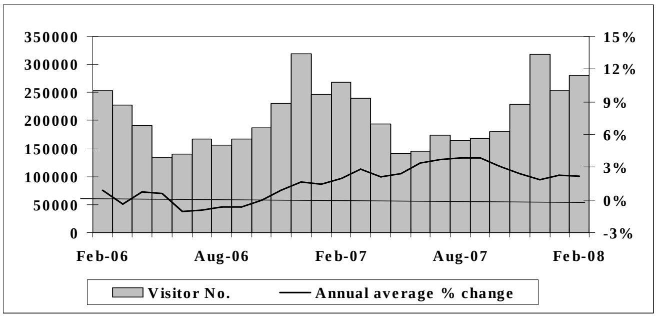
Exchange Rates



Source: Reserve Bank of New Zealand

While New Zealand's exchange rates fluctuated during March 2008, the overall trend was downwards. By the end of March 2008 NZ$1.00 traded against US$0.79, down from US$0.82 a month earlier. The Trade-Weighted Index (TWI) declined from 73.3 to 70.4 points over the same period.

International Arrivals



Source: Statistics New Zealand

International visitor arrivals to New Zealand totalled 280,513 in February 2008. This represented an increase from the 253,500 visitor arrivals recorded in January 2008 and an increase of 12,944 visitors (or 4.8%) compared to the number recorded in February 2007. The annual average growth rate in the number of visitor arrivals to New Zealand was 2.2% for the year ended February 2008.

SUMMARY AND COMMENTARY

The National Bank's (NB) March 2008 Business Outlook Survey showed that a net 58% of firms expected that general business conditions will deteriorate in 12 months' time. This represented a weakening in business confidence compared to February 2008 when a net negative 44% of businesses surveyed expected that New Zealand's general business conditions will deteriorate.

Pessimism about future economic conditions in the NB's latest business confidence survey was distributed across all the industry sectors surveyed. The agriculture sector was the most affected with a net 68% of farmers possessing pessimistic expectations for the year ahead. A net negative 59% of firms in the manufacturing sector expected conditions to deteriorate in 12 months' time while expectations of those in the construction, services and retail sectors stood at a net negative 55%, a net negative 55%, and a net negative 54% respectively.

A net 6% of firm's expected that their (own) level of real business activity in 12 months' time will decline. This was the first time since early 2006 that a majority of firms expected a decrease in their level of business activity.

The Westpac McDermott Miller (WMM) Consumer Confidence Index decreased from 110.0 points as at the December 2007 quarter to 96.5 points as at the March 2008 quarter(an index value of greater than 100 indicates that optimists outnumber pessimists). This was the lowest level recorded over the past decade.

Employment confidence has also worsened. The WMM Employment Confidence Index declined by 4.7 points from the December 2007 quarter's level to 128.8 points as at the March 2008 quarter (an index value of greater than 100 indicates that optimists outnumber pessimists).