



NEW ZEALAND ECONOMIC UPDATE

April 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.

MARCH 2008 QUARTER CPI

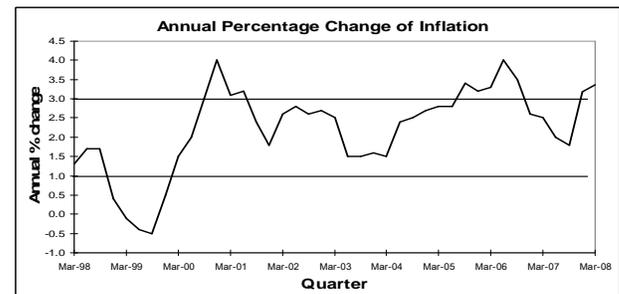
Statistics New Zealand's (SNZ) Consumer Price Index (CPI) grew by 0.7% over the March 2008 quarter. This result was consistent with the market's expectations and followed an increase of 1.2% recorded in the December 2007 quarter. Annual headline inflation was 3.4% for the March 2008 year. This exceeded the upper bound of the Reserve Bank of New Zealand's (RBNZ) 1% - 3% target inflation range.

Prices in seven out of the eleven CPI groups grew over the March 2007 quarter. The main drivers of the latest quarterly CPI increase were increases in the prices of food, housing and transport. Increases in food prices over the June 2007, September 2007, December 2007 and March 2008 quarters were 0.5%, 1.2%, 1.5%, and 1.8% respectively. Prices for grocery items (up 3.6%), restaurant meals and fast food (up 1.3%) and non-alcoholic beverages (up 3.3%), all increased over the March 2008 quarter. In particular, butter prices grew by 33.9% and the cost of cheese grew by 18.9% over this period.

Had food prices remained unchanged, the CPI would have only increased by 0.37% over the March 2008 quarter. Prices in the housing and household utilities group have grown by 1.0% over the past three months, bringing growth for the year to March 2008 in this group to 5.1%. While growth in new housing prices declined by 0.9% over the March 2008 quarter (the lowest quarterly increase recorded since the September 2002 quarter), rental costs grew by 1.2%, and electricity charges grew by 0.8% over this period. After a large increase (up 3.2%) in the December 2007 quarter, prices for the transport group increased modestly by 0.8% in the March 2008 quarter.

Petrol prices grew by 4.0% over the March 2008 quarter and made the most significant individual contribution to the CPI increase. Over this period there was an 8.6% decrease in international airfares and a 4.4% decrease in the cost of domestic air travel. Prices of new cars also decreased by 1.6%. Notably, petrol prices increased by 20.5% in the year to March 2008.

The four groups in which prices decreased over the March 2008 quarter were recreation and culture (down 1.2%), apparel (down 1.0%) household contents services (down 0.8%) and communication (down 0.1%).



Source: Reserve Bank of New Zealand and Statistics New Zealand

RBNZ HELD OCR AT 8.25%

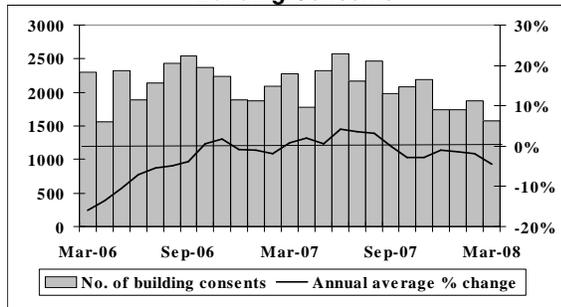
As the market expected the Reserve Bank of New Zealand (RBNZ) held the Official Cash Rate (OCR) at 8.25% in its review held in April 2008.

Compared with the hawkish tone in its March 2008 Monetary Policy Statement, the RBNZ adopted a more dovish approach stating that they "expect that the OCR will need to remain at current levels for a time yet". However, the RBNZ now faces a dilemma.

On one hand, New Zealand's economic activity has weakened more than expected with international shocks adversely affecting some local markets. On the other hand, the latest CPI data reveals that inflationary pressures remain strong. There exists the very real risk of escalating wage claims, little spare productive capacity in the economy, and immense pressure on firms' costs. All of which indicate that the medium-term outlook is for a moderately strong rate of inflation. On balance, the RBNZ decided it is prudent to adopt a wait-and-see strategy by holding the OCR at 8.25%.

KEY INDICATOR TRENDS

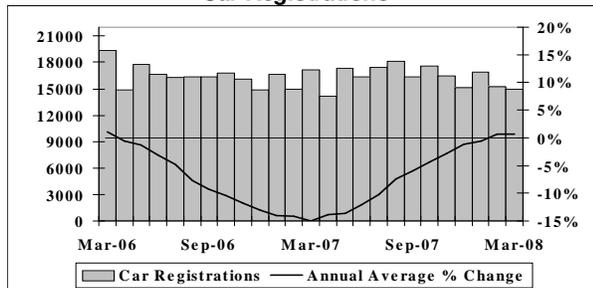
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

There was a total of 1,567 new building consents with a combined value of around \$431.1 million issued for residential dwellings in New Zealand during March 2008. This was the lowest level recorded since May 2006. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 4.5% for the year ended March 2008.

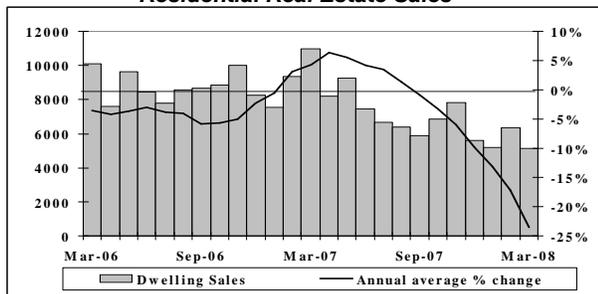
Car Registrations



Source: Land Transport Safety Authority

There was a total of 14,932 (including both new and ex-overseas car types) registered in New Zealand during March 2008, down from 15,201 and 17,356 cars recorded in February 2008 and March 2007 respectively. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was 0.6% for the year ended March 2008.

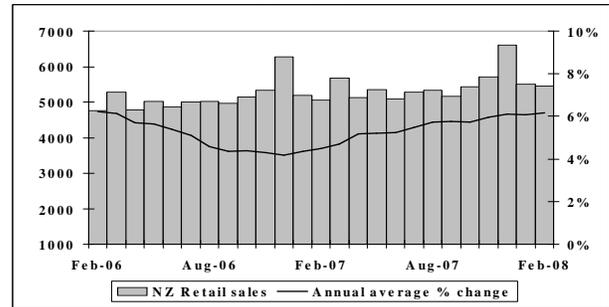
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 5,129 houses were sold in New Zealand during March 2008. This was the lowest level recorded since February 2001. The median sale price as at March 2008 stood at \$349,000. The annual average growth rate in the number of houses sold in New Zealand was negative 23.5% for the year ended March 2008.

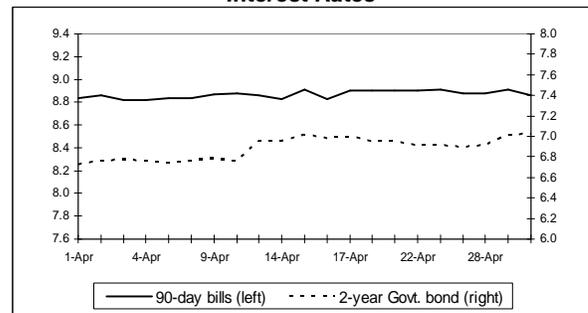
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The nominal value of New Zealand's retail sales declined from \$5,513.3 million in January 2008 to \$5,441.8 million in February 2008. February 2008's level represented an increase by \$388.2 million (or 7.7%) compared to the value of sales recorded in February 2007. The annual average growth rate in the (total) nominal value of New Zealand's retail sales was 6.2% for the year ended February 2008.

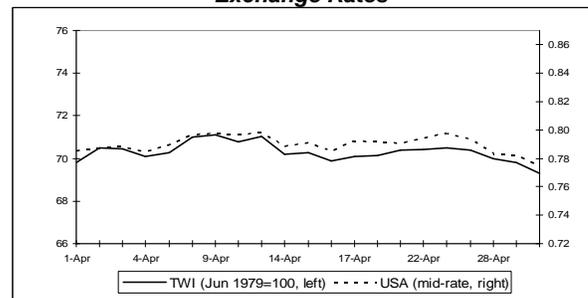
Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's wholesale interest rates were stable for the first half of April 2008. However, the RBNZ's dovish comments made in its latest review of monetary policy resulted in a (small) degree of movement with rates initially moving upwards then downward towards the end of the month. By the end of April 2008 the 90-day bill rate stood at 8.86%.

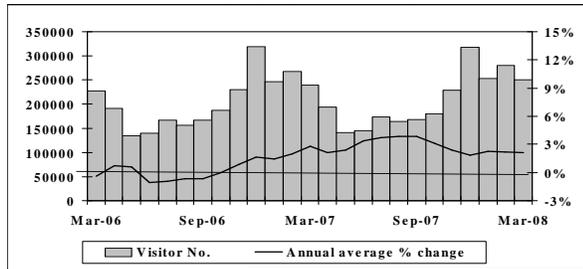
Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates were reasonably volatile in April 2008. This was the combined result of the flow-on effect of the US Federal Reserve's interest rate cut and the RBNZ adopting a less hawkish attitude. By the end of April 2008, NZ\$1.00 traded against US\$0.77 and the Trade-Weighted Index (TWI) stood at 69.3 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 250,806 international visitor arrivals to New Zealand during March 2008 which was less than the 280,513 visitors arrivals recorded in February 2008, but 11,603 visitors greater (or 4.9%) than the number recorded in March 2007. The annual average growth rate in the number of visitor arrivals to New Zealand was 2.1% for the year ended March 2008.

SUMMARY AND COMMENTARY

According to the Quarterly Survey of Business Opinion (QSBO) published by the New Zealand Institute of Economic Research (NZIER), business confidence has declined to a 33-year low in the March 2008 quarter.

A net 64% (not seasonally adjusted) of firms believe that the general business situation will deteriorate over the next six months. This is much worse than the net 26% who took a negative viewpoint in the NZIER's previous quarterly survey. A net 8% (seasonally adjusted) of firms' expect their (own) trading activity to decrease in the next three months compared to the level observed in the March 2008 quarter. This result represented an increase from a net 11% of businesses in the December 2007 quarter who expected an increase.

A net 30% of firms who were surveyed in the QSBO reported a decline in profitability in the March 2008 quarter while a net 33% expect a decline in profitability in the June 2008 quarter. Firms expectations of profitability in the next three months was the lowest surveyed since March 1983.

The April 2008 National Bank Business Outlook Survey indicated that a net 55% of firms surveyed believe that New Zealand's general business conditions will deteriorate in 12 months' time. Confidence about firms' (own) level of business activity in 12 months' time stood at a net negative 4%. A net 31% of firms expect that the price of their good or service will have increased in 12 months' time while a net 30% believe that their firm's inflation-adjusted profits will have decreased in this period.

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