



NEW ZEALAND ECONOMIC UPDATE

May 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.

LABOUR MARKET EASED

According to the March 2008 quarter Household Labour Force Survey (HLFS) published by Statistics New Zealand (SNZ), the New Zealand labour market weakened over the March 2008 quarter. The number of people employed decreased by 29,000 people (s.a.; -1.3%) to 2,141,000 people. This was the largest quarterly percentage decline experienced since the March 1989 quarter. Annual employment declined by 5,000 people (or 0.2%) for the year ended March 2008.

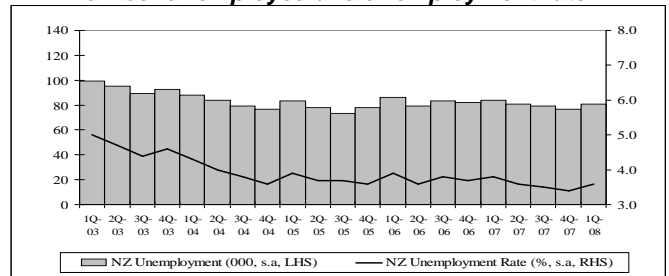
The decline in employment was driven by a decrease in the number of full-time jobs, which declined by 1.7% over the past quarter and 0.7% (11,000 people) over the year to March 2008. Female full-time employment decreased by 3.3% with the total number of females employed declining by 20,000 people (or 2.0%) over the March 2008 quarter. However, female part-time jobs increased slightly by 0.2% over this period. Male employment declined by 9,000 people (or 0.8%) to 1,153,000 people. This was the result of 0.6% and 2.7% decreased in full-time and part-time male employment respectively. Male employment decreased by 3,000 people (or 0.3%) for the year to March 2008.

The number of people unemployed increased modestly in the March 2008 quarter. Total unemployed increased by 4,000 (or 5.5%) to 81,000 people over the quarter with 3,000 females and 1,000 males becoming unemployed. However, unemployment declined by 2,000 people (or 2.2%) compared to the number unemployed as at the March 2007 quarter.

The size of New Zealand's labour force declined by 24,000 people (or 1.1%) over the March 2008 quarter while the labour force participation rate declined by 0.9 percentage points to 67.7%. The unemployment rate as at the March 2008 quarter was 3.6%, up from 3.4% as at the December 2007 quarter.

The latest HLFS data signals that the New Zealand economy has started to lose momentum. Nevertheless the chance of the Reserve Bank of New Zealand (RBNZ) cutting interest rates in 2008 remains low.

Number unemployed and unemployment rate



Source: Statistics New Zealand, HLFS

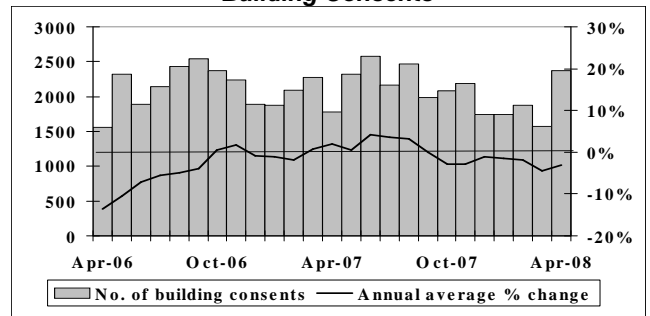
BRIEF REVIEW OF 2008 BUDGET

The 2008 Budget included a personal tax cut package worth \$10.6 billion, which will be phased in over the next three years. The lowest income tax rate dropped from 15% to 12.5%, while the top rate remained unchanged at 39% but with an adjusted threshold of \$70,000, up from \$60,000. The average employee will receive an extra \$16 per week. Business initiatives which received funding included: \$700 million allocated to boost innovation in pastoral and food industries; \$690 million set aside for purchasing Toll New Zealand rail; \$325 million to facilitate high speed broadband and \$591 million for tertiary education.

As a result, operating surpluses in 2008 will narrow from \$7.4 billion forecasted in the Half Year Update to \$2.5 billion, but the borrowing (ie, bond programme) will reach \$3.3 billion in year 2009.

KEY INDICATOR TRENDS

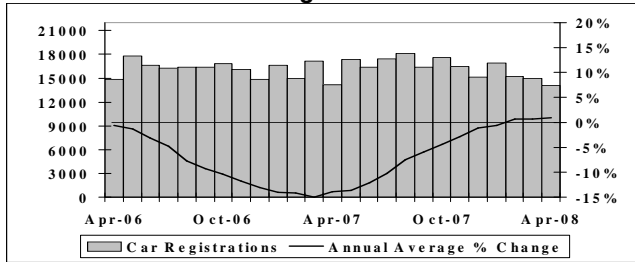
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

A total of 2,373 new building consents worth around \$529.8 million were issued for residential dwellings in New Zealand during April 2008. This was the highest level recorded over the past eight months, and was greater than the 1,782 consents issued in April 2007. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 3.0% for the year ended April 2008.

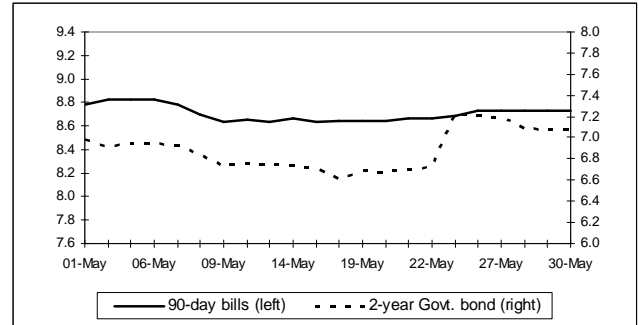
Car Registrations



Source: Land Transport Safety Authority

A total of 14,043 cars (including both new and ex-overseas car types) were registered during April 2008, the lowest level recorded over the past seven years. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was 0.9% for the year ended April 2008.

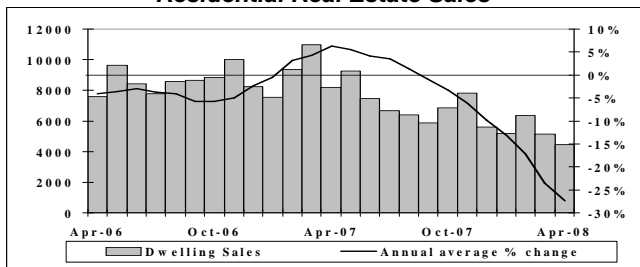
Interest Rates



Source: Reserve Bank of New Zealand

After initial falls in early May 2008, the more stimulatory than expected budget pushed up New Zealand's wholesale interest rates and the government bond yield. By the end of month, the 90-day bill rate stood at 8.73%.

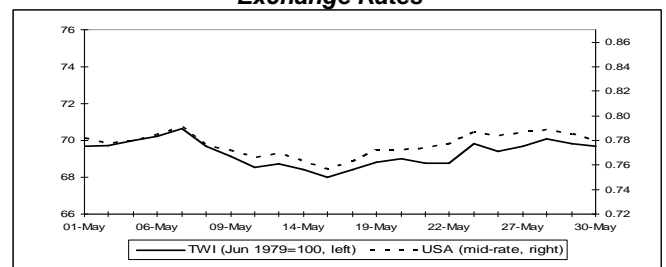
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 4,464 houses with a median sale price of \$345,000 were sold in New Zealand during April 2008. This was the lowest number of monthly sales recorded over the past 14 years. The annual average growth rate in the number of houses sold in New Zealand was negative 27.4% for the year ended April 2008.

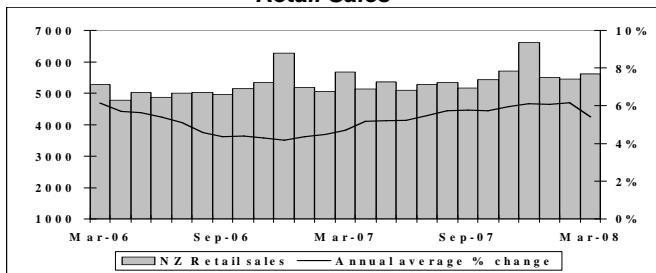
Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates depreciated over the first half of May 2008. However, bolstered by the Budget and an exuberant Aussie dollar the Kiwi dollar regained some ground. By the end of the month NZ\$1.00 traded against US\$0.77 and the Trade-Weighted Index (TWI) stood at 69.7 points.

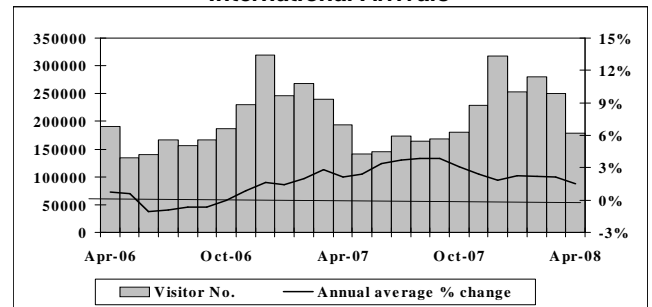
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's nominal retail sales totalled \$5,612 million in March 2008. While this was higher than the \$5,441.8 million recorded in February 2008 it was less than the \$5,670.8 million recorded in March 2007. The annual average growth rate in the nominal value of New Zealand's retail sales was 5.4% for the year ended March 2008.

International Arrivals



Source: Statistics New Zealand

There as a total of 179,388 overseas visitor arrivals to New Zealand recorded in April 2008. This was less than the 250,806 visitors recorded in March 2008, and represented a decrease of 13,841 visitors (or 7.2%) compared to the number recorded in April 2007. The annual average growth rate in the number of visitor arrivals to New Zealand was 1.5% for the year ended April 2008.

SUMMARY AND COMMENTARY

New Zealand has become the first country to sign a free trade agreement with China. While the full impacts of the agreement in the long term is yet to be seen, the sheer market size of China will no doubt provide many opportunities for New Zealand firms to expand their operations. On a domestic level, the government for the first time in eight years announced personal tax cuts. The total package is valued at 10.6 billion over the next three years.

The National Bank's (NB) May 2008 Business Outlook Survey showed that a net 50% of firms expect that general economic conditions will deteriorate in 12 months' time. This result was only marginally more positive than the net 55% who took a similar pessimistic viewpoint in the NB's April 2008 business confidence survey. Firms were also negative about their own level of real business activity with a net 4% expecting to experience less activity in 12 months' time.

Disclaimer: This national economic update is produced monthly by APR Consultants. Although the update incorporates the most recent information available, many of the figures are provisional. Accordingly, no liability can be accepted for the accuracy of the material contained. Businesses and individuals are advised to seek professional advice before making major business decisions and any decisions based on the information contained in this report are made entirely at their own risk.