



NEW ZEALAND ECONOMIC UPDATE

June 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.

NZ ECONOMY SLOWED

As New Zealand's key commercial banks and the Reserve Bank of New Zealand (RBNZ) expected the level of national business activity slowed in the March 2008 quarter. According to Statistics New Zealand (SNZ), New Zealand's Gross Domestic Product (GDP) declined by 0.3% over the quarter. SNZ's estimate of GDP growth in the December 2007 quarter was revised from 1.0% to 0.8%. However, GDP growth for the year ended March 2008 stood at 3.0%.

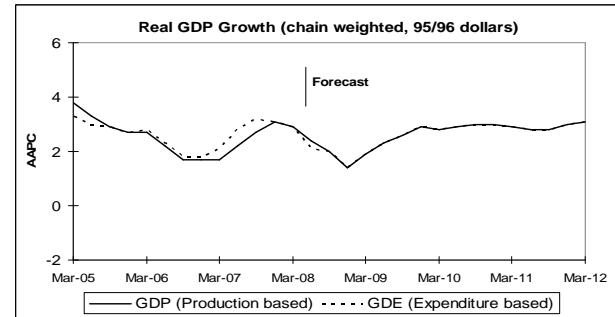
The quarterly economic contraction was caused by a low level of activity across the primary, manufacturing, and parts of the service sector. Six out of 11 main industries slowed over the March 2008 quarter.

Primary industries declined by 4.1% over the March 2008 quarter with the agriculture sector being the main contributor to this trend. Drought conditions together with higher production costs caused value added in agricultural products to decline by 5.6% over this period. Value added by forestry and mining industries declined by 2.7% and 2.3% over the March 2008 quarter respectively.

Activity in goods producing industries declined by 1.9% over the March 2008 quarter as both the construction and manufacturing sectors slowed. Given the negative sentiment in domestic and international housing markets, it came as no surprise that construction activity declined by 5.2% over the quarter. Manufacturing slowed by 1.2% while food, beverage and tobacco manufacturing slowed by 4.0% and machinery and equipment manufacturing slowed by 3.1% over the March 2008 quarter. However, petroleum and chemicals manufacturing (up 7.9%) and wood and paper manufacturing (up 2.6%) experienced positive growth in the March 2008 quarter.

Following growth of 0.9% in the December 2007 quarter, activity in service industries grew by 0.3% over the March 2008 quarter. Personal and community services grew by 1.4% over this period while finance, insurance and business services declined by 0.2%.

Looking at expenditure estimates of GDP, household spending declined by 0.4% over the March 2008 quarter. Fixed asset investment declined by 1.2% over the quarter while investment in plant, machinery and equipment grew by 5.9%. Exports declined by 1.8% over this period following a 4.5% increase in the December 2007 quarter.



Source: NZIER and SNZ

CURRENT ACCOUNT DEFICIT WIDENED

According to Statistics New Zealand, the seasonally adjusted (s.a.) Current Account Deficit (CAD) reached \$3,527 million in the March 2008 quarter, some \$410 million larger than the figure recorded for the December 2007 quarter CAD. The CAD for the year to March 2008 stood at \$13,787 million, accounting for 7.8% of GDP.

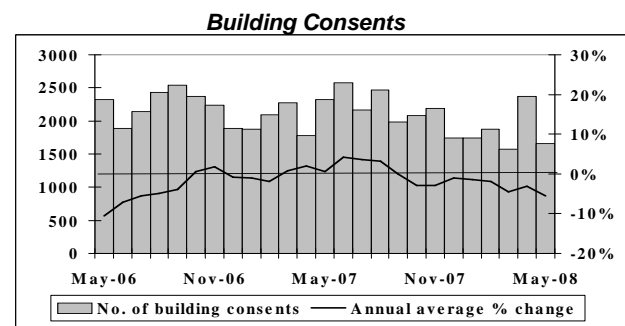
The goods balance widened to a deficit of \$158 (s.a.) million in the March 2008 quarter, (compared with a deficit of \$19 million in the December 2007 quarter) as an increase of \$245 million in exports was outweighed by an increase of \$384 million in imports.

Dairy prices grew by a large 19.7% (the largest quarterly increase since September 1971) in the March 2008 quarter, however a fall in volumes traded partly offset the high value of exports. An increase in the value of imports was mainly driven by sharp increases in oil prices together with a rise in volume of crude oil imports.

The service sector enjoyed a surplus of \$31 million due to a boost in exports of services (ie; tourism) in the March 2008 quarter. The investment income balance,

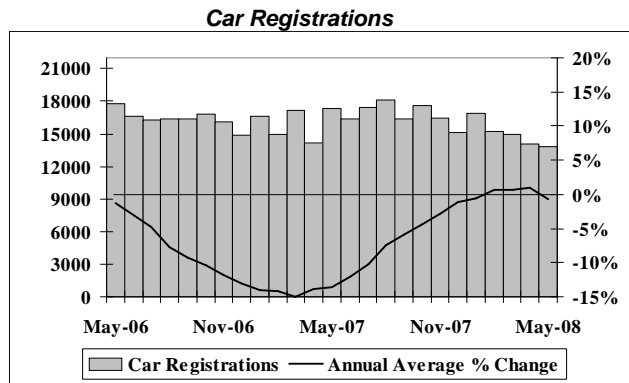
the largest component of the CAD, recorded a deficit of negative \$3,580 million for this period. While foreign investors earned \$31 million less compared to the December 2007 quarter, a decrease of \$346 million earned overseas by New Zealanders dragged the CAD down.

KEY INDICATOR TRENDS



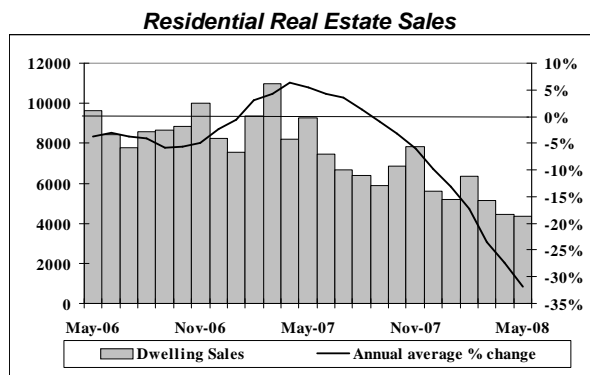
Source: Dept of Statistics Building Surveys and Vitals Section

The number of new building consents issued for residential dwellings declined from 2,373 consents in April 2008 to 1,653 consents in May 2008. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 5.6% for the year ended May 2008.



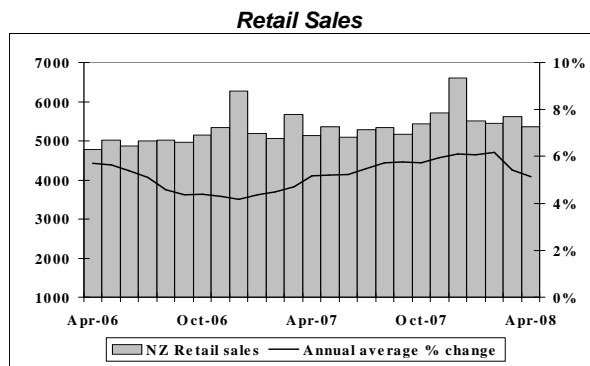
Source: Land Transport Safety Authority

There was a total of 13,783 motor vehicles (including both new and ex-overseas car types) registered in New Zealand during May 2008, the first time that the number of registrations declined below a 14,000 car benchmark since July 1998. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 0.7% for the year ended May 2008.



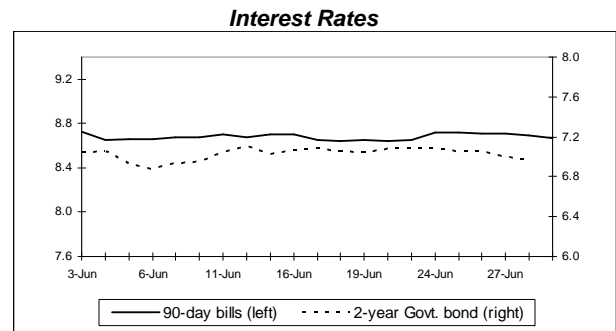
Source: Real Estate Institute of New Zealand

A total of 4,347 houses were sold in New Zealand during May 2008, a new low compared to the 4,464 (the lowest over the past 14 years) recorded just a month earlier. The annual average growth rate in the number of houses sold in New Zealand was negative 31.8% for the year ended May 2008.



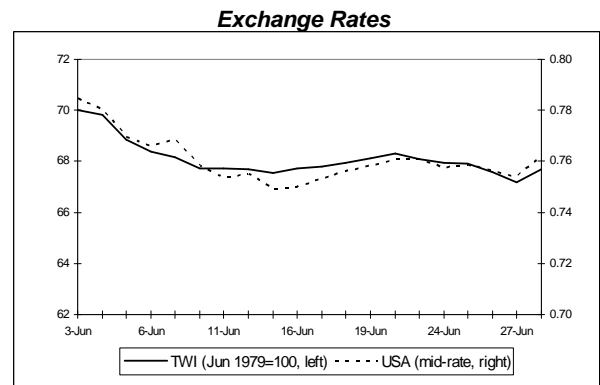
Source: Business Statistics Section, Statistics New Zealand

The nominal value of New Zealand's retail sales reached \$5,347 million in April 2008, a decrease of \$265 million from March 2008's level, but greater than the \$5,136.4 million recorded in April 2007. The annual average growth rate in the nominal value of New Zealand's (total) retail sales slowed from 6.2% for the year ended February 2008 to 5.2% for the year ended April 2008.



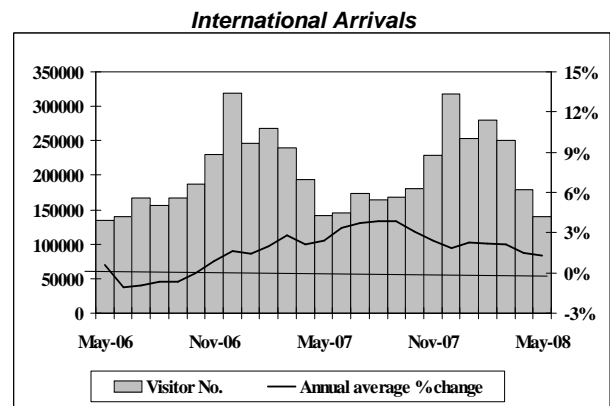
Source: Reserve Bank of New Zealand

Despite poor GDP growth, New Zealand's wholesale interest market showed little movement over June 2008 suggesting that inflation pressures are very strong. By the end of June 2008 the 90-day bill rate stood at 8.67%.



Source: Reserve Bank of New Zealand

The value of the Kiwi dollar trended down in June 2008, impacted negatively by both the weak GDP and CAD results. By the end of the month, NZ\$1.00 traded against US\$0.76 and the Trade-Weighted Index (TWI) eased to 67.7 points.



Source: Statistics New Zealand

May 2008 saw a total of 140,483 international visitor arrivals to New Zealand compared to 140,755 visitors recorded in May 2007. The annual average growth rate in the number of international visitor arrivals to New Zealand was 1.3% for the year ended May 2008.

SUMMARY AND COMMENTARY

The Westpac McDermott Consumer Confidence (WMCC) Index fell sharply by 15 points from the March 2008 quarter's level to 81.7 points in the June 2008 quarter (an index value of greater than 100 indicates that the number of optimists exceeds the number of those who hold negative expectations). This was the third lowest level recorded over the past 20 years. A net 41% of survey respondents thought that their personal financial situation had worsened compared to a year earlier. This result was a decline by 22 points from the level recorded in the March 2008 quarter WMCC Survey. Regarding New Zealand's economic

outlook, a net 51.6% of consumers surveyed expect the economy to slow over the next 12 months.

The National Bank's (NB) Business Outlook Survey for June 2008 showed that a net 39% of firms expect that New Zealand's general economic conditions will worsen in 12 months' time. This was an improvement from a net 50% of firms who were pessimistic in the May 2008 survey. Firms remained pessimistic about their own level of real business activity with a net 4% expecting their level of activity to decline in 12 months' time.

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