NEW ZEALAND ECONOMIC UPDATE

December 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.

REVIEW OF DECEMBER 2008 HYEFU

As widely expected, the Treasury revised down significantly its Half Year Economic and Fiscal Update (HYEFU) in December 2008.

Most economic indicators were worse in the HYEFU compared with the Pre-election Economic and Fiscal Update (PREFU). While annual GDP growth looked slightly better for the March 2009 year (0.3% in HYEFU against 0.1% in PREFU), it was worse for the 2010 year (0.8% vs. 1.8%) and 2011 (2.9% vs. 3.3%).

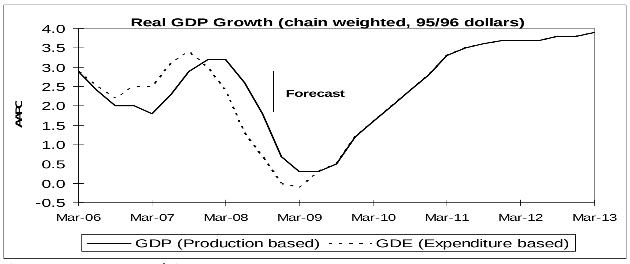
The unemployment rate is expected to reach 4.7% in March 2009 and 6.4% a year later, which equates to 51,000 job losses.

To counter the effects of low global economic growth and subdued commodity prices on New Zealand's economy, the government will cut tax rates and boost infrastructure investment (while constrain its operating spending allowances), which will push total spending up to 3.5% of GDP for the June 2009 year (2.8% in the PREFU). As a result, the government will no longer run an operating surplus ($5.6 billion for the June 2008 year) and instead run deficits of $550 million in the June 2009 year and $6.3 billion in the year to June 2013.

The debt ratio is forecasted to increase from 17.5% of GDP currently to 33.1% by the June 2013 year. To finance spending, the government's bond issuance will increase from $1,757 million in the June 2008 year to $15,800 million in the year to June 2013.

ECONOMIC ACTIVITY SLIDE IN THE THIRD QUARTER

For three quarters in a row, New Zealand's economic activity decreased in 2008. The latest statistics showed that the real Gross Domestic Product (GDP, product based and measured in 95/96 prices) declined 0.4% in the September 2008 quarter (following decreases of 0.2% and 0.3% recorded in the June and March 2008 quarters respectively). Growth for the year ended September 2008 was 1.7%, down from the 2.8% recorded for the year to September 2007.



Source: NZIER and SNZ

The latest GDP results were not as bad as most economists expected. Activity in the primary industries increased 2.1% over the September 2008 quarter in contrast to a fall of 0.3% recorded in the June 2008 quarter. A 6% growth in agriculture output, helped by strong dairy production, was the main driver of positive growth.

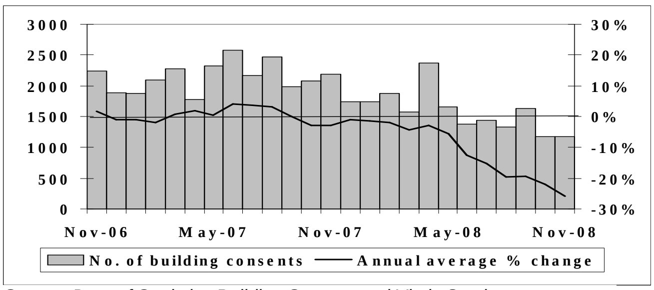
The goods producing industries recorded a decrease of 1.4% in the September 2008 quarter (this was the third consecutive quarterly fall in 2008). Except for the machinery and equipment sector, 8 out of 9 manufacturing industries experienced negative growth in the September 2008 quarter. This resulted in manufacturing overall declining by 2.5% in this period. Value added in the construction sector declined by 1.2% in the September 2008 quarter, largely caused by subdued activity in the residential building industry. Electricity, gas and water value added increased 5.1% in the September 2008 quarter.

Following a decline of 0.4% in the June 2008 quarter, the service industries decreased 0.2% in the September 2008 quarter. Transport and communications declined by 0.2%, while wholesale trade (impacted negatively by wholesale car sales) declined by 1.8% in this period.

Looking ahead, flat (or even negative) GDP growth is expected for the December 2008 quarter.

KEY INDICATOR TRENDS

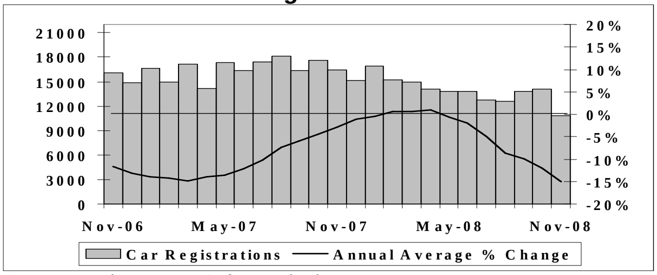
Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

There was a total of 1,168 and 1,173 new building consents issued for residential dwellings in November 2008 and October 2008 respectively. These are the lowest levels recorded since Statistics New Zealand started to collect consent data. The annual average growth rate in the number of new building consents was negative 25.8% for the year ended November 2008.

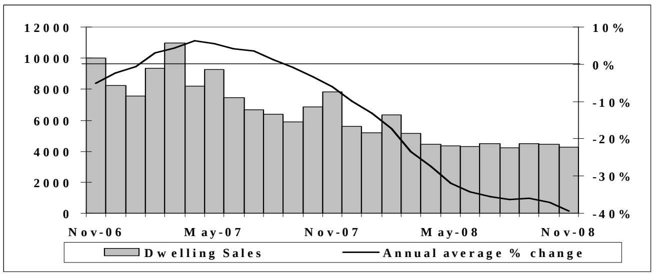
Car Registrations



Source: Land Transport Safety Authority

A total of 10,821 cars (including both new and ex-overseas car types) were registered in New Zealand in November 2008. This was the lowest level recorded since May 1995. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 15.1% for the year ended November 2008.

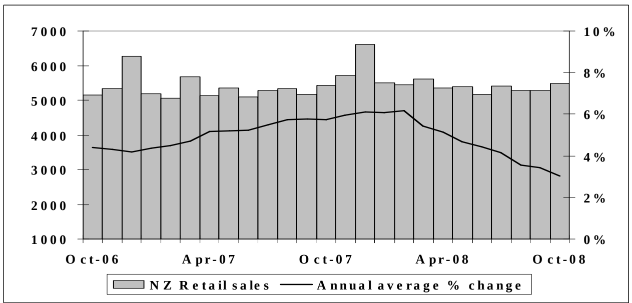
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 4,279 houses were sold in New Zealand in November 2008, down from 4,469 houses sold in October 2008 and much less than the 7,837 houses sold in November 2007. The annual average growth rate in the number of houses sold in New Zealand was negative 39.5% for the year ended November 2008.

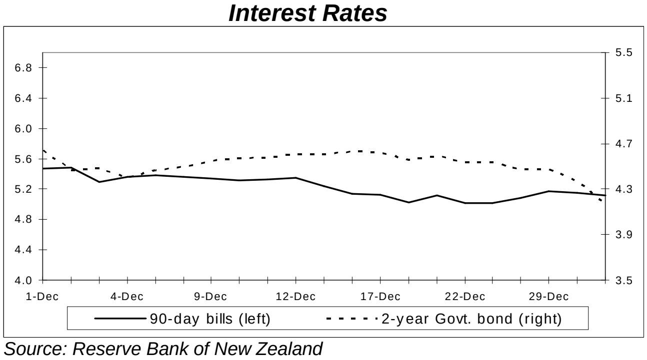
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

New Zealand's retail sales increased from $5,285.6 million in September 2008 to $5,477.9 million in October 2008. Retail sales totalled $5,430.4 million in October 2007. The annual average growth rate in the nominal value of New Zealand's retail sales was 3.0% for the year ended October 2008.

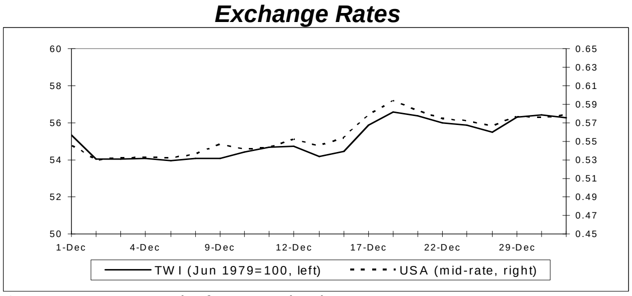
Interest Rates



Source: Reserve Bank of New Zealand

Wholesale interest rates continued to ease in December 2008 caused by weak domestic GDP data and a worsening global economic outlook. By the end of the month, the 90-day bill rate had declined to 5.11%.

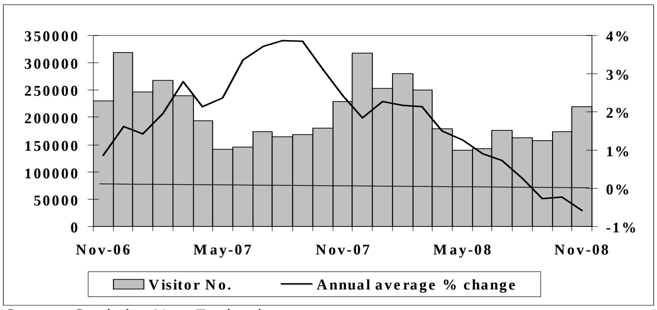
Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates were stable for the first two weeks in December 2008 but appreciated thereafter mainly driven by the stronger Australian dollar and the weaker Greenback. By the end of the month NZ$1.00 traded against at US$0.58 and the Trade-Weighted Index (TWI) reached 56.27 points.

International Arrivals



Source: Statistics New Zealand

The number of international visitor arrivals to New Zealand increased from 173,938 in October 2008 to 219,313 visitors in November 2008. November 2008's numbers were less than the 228,813 visitors recorded in November 2007. The annual average growth rate in the number of international visitor arrivals to New Zealand was negative 0.6% for the year ended November 2008.

SUMMARY AND COMMENTARY

A decline in GDP over the third quarter, potential job losses and a dismal world economic outlook, seem to outweigh the benefits of recent falls in petrol prices, interest rates and income tax.

According to the December 2008 quarter Westpac McDermott Miller Survey, consumer confidence decreased from 104.8 to 101.3 over the December quarter (>100 indicates there are more optimists than pessimists). While the indicator was above the 100 mark, it was the lowest recorded over the past few years. Northland, Waikato and Canterbury regions had index values that were less than 100, while the other eight New Zealand regions' confidence stood in positive territory.

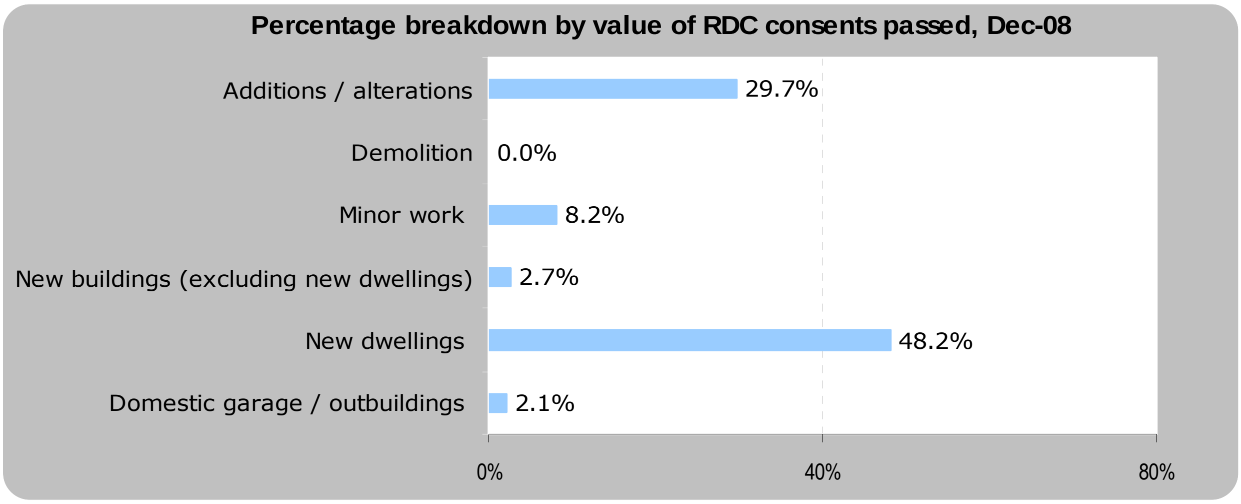
The National Bank's December 2008 Business Outlook Survey revealed that a net 35% of firms expected the general economic situation to deteriorate in 12 months' time. While the index improved from a net 43% who were pessimistic about the economy in the previous month's survey, more respondents in December 2008 expected their own level of business activity to worsen in 12 months' time with a net negative 22% in December 2008 expecting a decline compared to a net negative 14% in November 2008.

Overall, the depreciation in New Zealand currency, together with tax cuts and stimulatory fiscal policies should gradually filter into the New Zealand economy and help it move out of the recession from mid 2009 onwards.

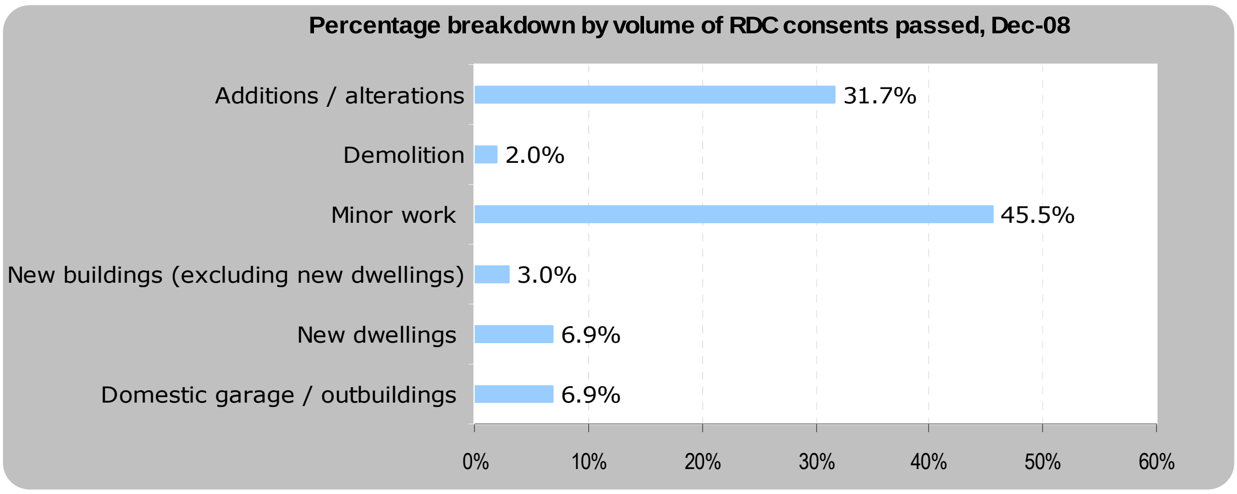
SUPPLEMENTARY BUILDING INFORMATION
NOVEMBER 2008

Type of consent	Value of consents	Number of consents
Additions / alterations	$1,300,999	32
Demolition	$100	2
Minor work	$356,899	46
New buildings (excluding new dwellings)	$117,000	3
New dwellings	$2,108,680	7
Domestic garage / outbuildings	$91,140	7
Resited dwelling	$399,700	4
Total	**$4,374,518**	**101**

Source: Compiled from Rotorua District Council building consent data



Source: Compiled from Rotorua District Council building consent data



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