



NEW ZEALAND ECONOMIC UPDATE

March 2009

NATIONAL ECONOMIC UPDATE

This New Zealand Economic Update is produced monthly and presents current information on recent along with an update of key economic indicators.

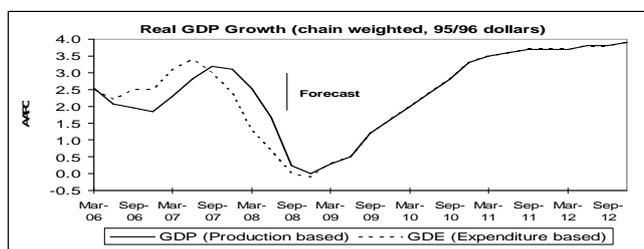
Quarterly GDP Continues to Contract

According to Statistics New Zealand, New Zealand's real Gross Domestic Product (GDP, measured in 95/96 prices) contracted 0.9% in the December 2008 quarter. This was the fourth consecutive quarter of contraction in New Zealand's measure of real GDP. However, real GDP grew 0.2% in the year ended December 2008, as the rate of growth in 2007 was greater than the rate of contraction in 2008. Real GDP measured \$134.8b in the year ended December 2007 and \$135.2b in the year ended December 2008.

Seven out of eleven industries reported a contraction in real GDP from the previous quarter. Goods producing industries were largely responsible for the overall contraction in activity, down by 3.6% in the December 2008 quarter. Manufacturing activity was down 3.8% with eight out of nine manufacturing industries recording a decline. Construction activity declined 4.4%, driven largely by a fall in residential building activity and construction trade services. Growth in non-building construction partly offset the decline in construction. Non-building construction includes construction work on bridges, communication networks, electrical transmission lines, and major repairs to roads and other infrastructure. On an annual basis, activity in the goods producing sector declined 3.1%.

Despite activity falling in fishing, forestry and mining, primary industry activity grew 1.6% in the December 2008 quarter and 0.9% for the year ended December 2008. Agriculture was the main driver of growth in primary activity in the December 2008 quarter with dairy production (milk fat) a significant contributor towards growth. Services industries were up 0.8% in the December 2008 quarter with finance, insurance and business services and government administration and defence leading the growth.

The expenditure-based measure of GDP recorded a 0.6% decrease in the December 2008 quarter. Household consumption expenditure was flat and investment in fixed assets was down 5.3%. Government consumption expenditure provided some relief increasing 1.7% in the December 2008 quarter and was up 4% for the year ended December 2008.



Source: New Zealand Institute of Economic Research and Statistics New Zealand

OCR Cut by 50 Basis Points

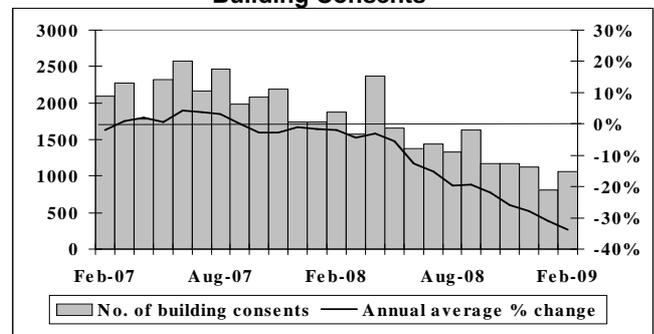
On 12 March 2009 the Reserve Bank of New Zealand (RBNZ) lowered the Official Cash Rate (OCR) by 50 basis points to 3.0%. With the market expecting a larger cut to the OCR, the New Zealand dollar rallied over the remainder of March 2009.

The OCR has now eased 525 basis points since June 2008 in response to adverse global economic conditions, taking interest rates to stimulatory levels. The RBNZ expects OCR easing to slow over 2009 with New Zealand needing "to retain competitiveness in the international capital markets". Stimulatory fiscal policy delivered to date together with a rapid depreciation of the New Zealand dollar are expected by the RBNZ, to drive a recovery in the second half of 2009 and support a slowing in the rate of decline of the OCR.

The RBNZ has signalled that the OCR is nearing a floor and that a near-zero real rate, as witnessed in other developed countries, is unlikely. However, global economic developments will continue to present much uncertainty and risks to the timing of New Zealand's economic recovery and influence the conduct of monetary policy going forward.

KEY INDICATOR TRENDS

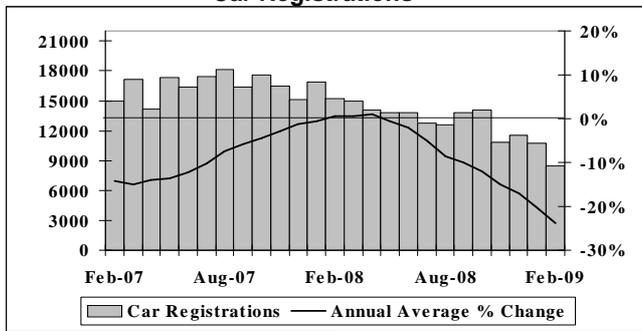
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 1,059 new building consents issued for residential dwellings during February 2009. While this was an increase from the historical monthly low of 812 consents recorded in January 2009, it was still the lowest number of consents recorded for a February month since Statistics New Zealand started to collect the data in 1973. The annual average growth rate in the number of new building consents was negative 33.8% for the year ended February 2009.

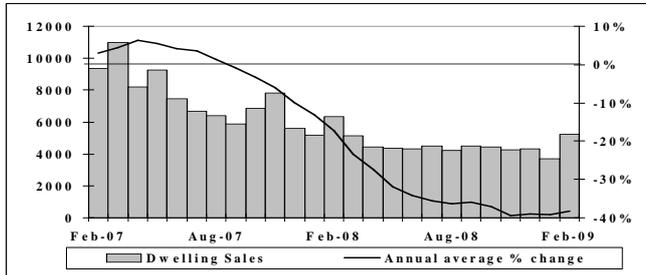
Car Registrations



Source: Land Transport Safety Authority

A total of 8,421 cars (including both new and ex-overseas car types) were registered in New Zealand in February 2009. This was the first time that monthly car registrations have been below 10,000 since May 1998. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 23.7% for the year ended February 2009.

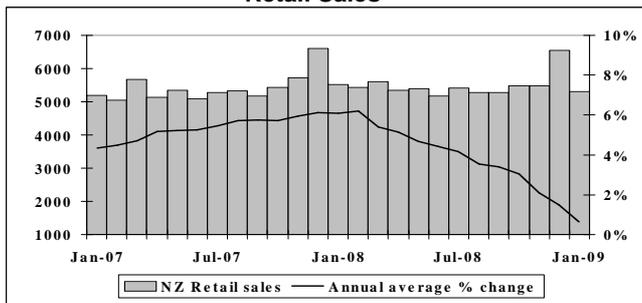
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 5,228 houses with a median sales price of \$330,000 were sold in New Zealand in February 2009. This was the highest number of monthly house sales recorded over the past twelve months, albeit below the 6,356 recorded in February 2008. The annual average growth rate in the number of houses sold in New Zealand was negative 38.3% for the year ended February 2009.

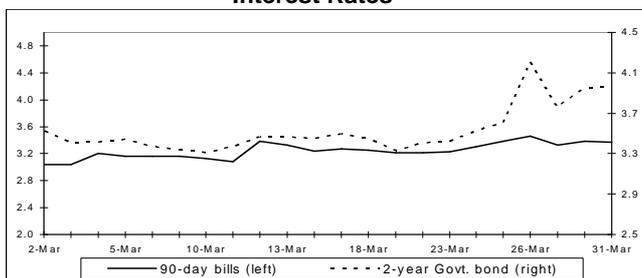
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's retail sales recorded \$5,310 million in January 2009, falling from a value of \$5,513.3 million in January 2008. The annual average growth rate in the nominal value of New Zealand's retail sales was 0.6% for the year ended January 2009.

Interest Rates

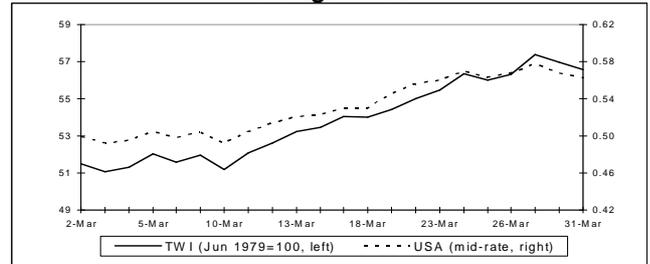


Source: Reserve Bank of New Zealand

While New Zealand wholesale interest rates were relatively stable during March 2009, the yield on 2-year

Government bonds rose sharply towards the end of March 2009. The 90-day bill rate stood at 3.37% by the end of March 2009.

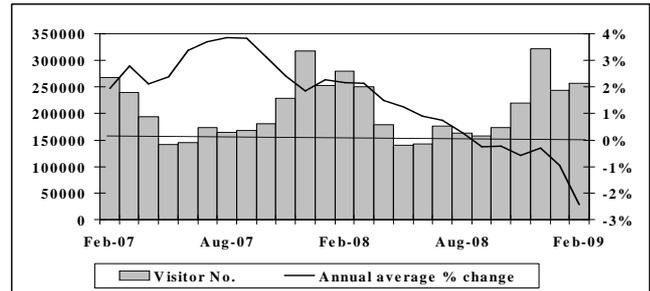
Exchange Rates



Source: Reserve Bank of New Zealand

The New Zealand dollar appreciated steadily in March 2009, largely in response to a less than expected OCR cut and the weaker US dollar. By the end of March 2009, NZ\$1.00 traded against US\$0.56 and the trade-weighted index (TWI) settled at 56.6 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 256,600 international visitor arrivals to New Zealand in February 2009. This was greater than the 244,030 international visitor arrivals recorded in January 2009, but 23,913 (or 8.5%) less than February 2008. The annual average growth rate in the number of international visitor arrivals was negative 2.4% for the year ended February 2009.

SUMMARY

The Westpac McDermott Miller employment confidence index for March 2009 decreased from 101.3 in December 2008 to a new low of 96.0 in March 2009. An index below 100 indicates that pessimists outweigh optimists in the survey sample.

A record net 54% of respondents in March 2009 said that jobs are hard to get compared to a net 26% in December 2008 and a large shift in sentiment from March 2008 when there was a net 57% who said jobs were plentiful. Job security has fallen even further and perceptions of earnings growth was reported to be slowing, both of which should subdue consumer spending going forward.

The National Bank's Business Outlook in March 2009 showed that business confidence remains grim with a net 39% of firms expecting a decrease in business conditions in twelve months time. Employment intentions remain weak, while investment intentions weakened further from those of February 2009.

With the New Zealand economy well into recession the key question now turns to the timing of recovery. Economic commentators are of varying views in this respect. The road to a recovery by the second half of the year stands on the premise that a stimulatory monetary policy, expansionary fiscal policy and export growth will drive economic growth from mid 2009. A less optimistic view has adverse global economic conditions limiting the affect of monetary and fiscal policy leading to a continued contraction of consumer and business expenditure over 2009.

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.