



NEW ZEALAND ECONOMIC UPDATE

April 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.

Inflation Back Within RBNZ Target Band

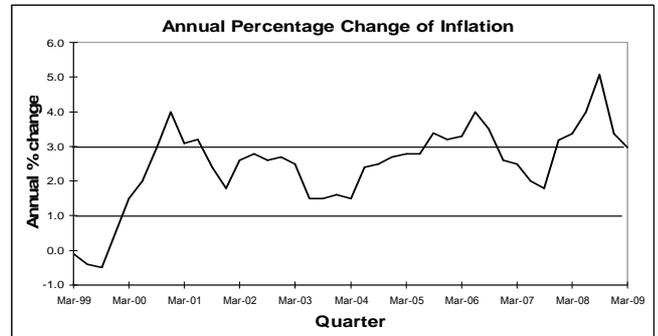
The New Zealand Consumer Price Index (CPI) increased modestly by 0.3% in the March 2009 quarter, in line with the market expectation. The annual CPI movement slowed from 3.4% in the year to December 2008, to 3.0% for the year to March 2009 and residing within the 1-3% target band set by the Reserve Bank of New Zealand (RBNZ). The non-tradable component of the CPI also slowed from 4.3% in the year to December 2008, to 3.8% for the year to March 2009 with significant upward contributions in electricity, actual rentals for housing and ready-to-eat food prices. The non-tradable component of the CPI includes goods and services that face no foreign competition and shows how domestic demand and supply conditions are affecting consumer prices.

Seven out of 11 CPI groups recorded price increases in the March 2009 quarter, with food prices (up 1.2%) having the most significant contribution. Of the food group, the most significant upward contributions were recorded in the grocery food (up 1.4%) and non-alcoholic beverage (up 3.5%) sub-groups, yet a decrease of 0.4% in the fruit and vegetables sub-group partly offset the upward movement. However, on an annual basis, food prices recorded an increase of 8.8% from the March 2008 quarter, to the March 2009 quarter.

Following an increase of 0.6% in the December 2008 quarter, prices in the housing and household utilities group increased a more modest 0.3%, the smallest increase since the June 2001 quarter. The main drivers came from higher electricity charges (up 0.6%) and actual housing rental (up 0.3%), while prices for buying new houses showed no movement. Other groups that reported upward price movements were education (up 4.2%), health (up 0.8%), household services (up 0.2%) and miscellaneous (up 0.9%).

After declining 7.6% in the December 2008 quarter, prices for the transport group declined a further 1.5% in the March 2009 quarter as a result of cheaper prices for international air tickets (down 16.5%), diesel (down 19.2%) and petrol (down 1.0%). Prices also declined on recreation and culture (down 0.6%), apparel (down 0.4%) and communication (down 0.1%).

Looking ahead, the CPI will continue to move to the lower end of the RBNZ's target band, giving the RBNZ room to keep the OCR at, or below, the current level throughout 2009 and into 2010.



Source: Statistics New Zealand and Reserve Bank of New Zealand

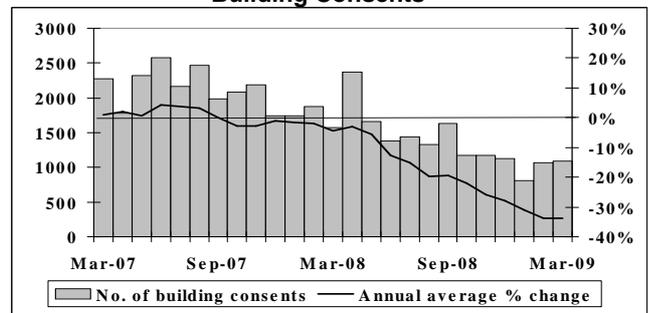
OCR Cut Again in April 2009

As was widely expected, the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) by 50 basis points at the end of April 2009. This has seen the OCR reach a new record low of 2.5%.

Both internal and external factors impacted the RBNZ's decision to cut the OCR. Externally, the outlook for the global economy has deteriorated, with the updated International Monetary Fund (IMF) forecasts revising down the economic growth of New Zealand's major trading partners to negative 2.2% for the year to December 2009. This much weaker external demand could hinder New Zealand's export-led recovery. Internally, the RBNZ alluded to the sharp increases in long term mortgage rates and an appreciation of the New Zealand dollar in March 2009. This was mentioned by the RBNZ as "unwarranted" and would influence adversely on the New Zealand economy. As a result, the RBNZ took an action in April 2009 to cut the interest rate by 50 basis points. It also expressed a more explicit message that they "expect to keep the OCR at, or below, the current level through until the latter part of 2010".

KEY INDICATOR TRENDS

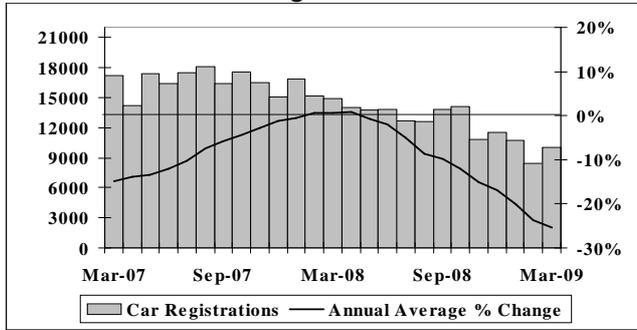
Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 1,091 new building consents, with a combined value of around \$302.7 million, issued for residential dwellings during March 2009. This was marginally greater than the 1,059 consents issued in February 2009, but less than the 1,567 consents issued in March 2008. The annual average growth rate in the number of new building consents was negative 33.7% for the year ended March 2009.

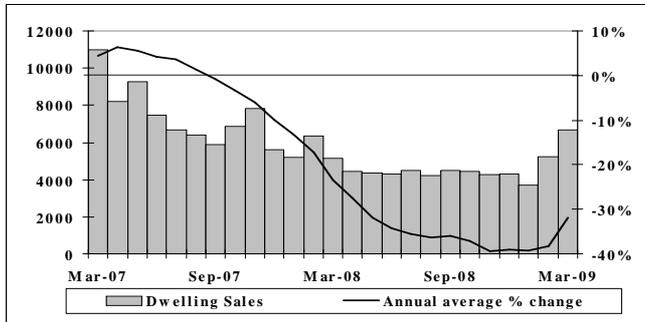
Car Registrations



Source: Land Transport Safety Authority

Around 10,000 cars (including both new and ex-overseas car types) were registered in New Zealand in March 2009. This was greater than the 8,421 cars registered in February 2009, but still much less than the 14,932 recorded in March 2008. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 25.4% for the year ended March 2009.

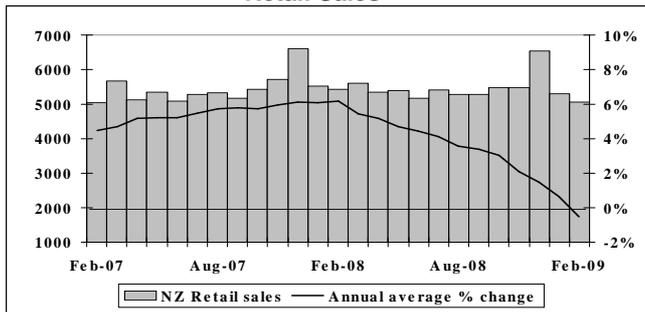
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 6,694 houses, with a median sales price of \$335,000, were sold in New Zealand in March 2009. This was the first time over the past 13 months that monthly sales volumes breached 6,000 houses sold. The annual average growth rate in the number of houses sold in New Zealand was negative 31.9% for the year ended March 2009.

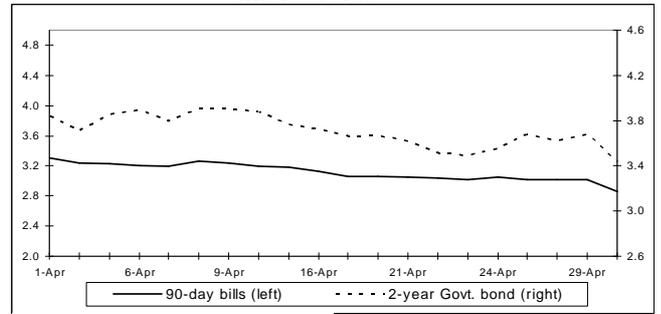
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's retail sales declined from \$5,310.2 million in January 2009, to \$5,065.9 million in February 2009, the lowest value of monthly retail sales recorded since March 2007. The annual average growth rate in the nominal value of New Zealand's retail sales was negative 0.5% for the year ended February 2009.

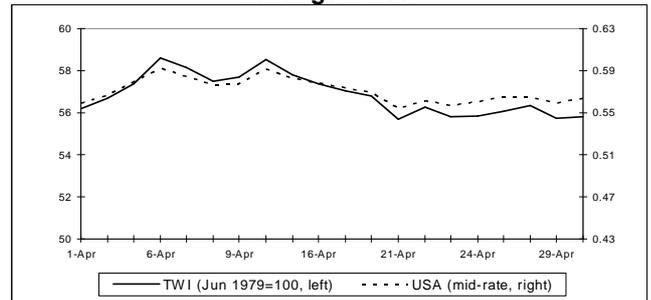
Interest Rates



Source: Reserve Bank of New Zealand

Expectations on a fall of OCR (which was confirmed by the 50 basis point cut on April 30 2009) dragged New Zealand wholesale interest rates down throughout April 2009. By the end of the month, 90-day bill rates had fallen to 2.86%.

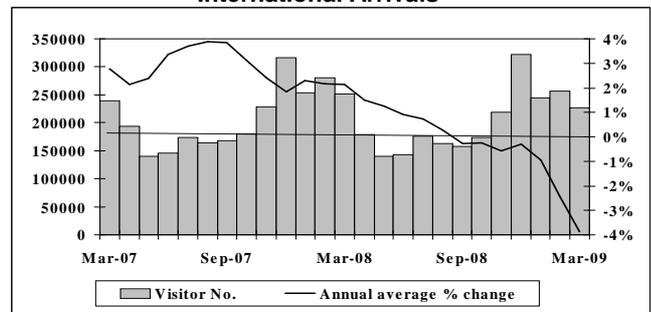
Exchange Rates



Source: Reserve Bank of New Zealand

The New Zealand dollar maintained a relatively high level for the first 2 weeks in April 2009, but had depreciated more than a cent against the US dollar by the end of the month, on expectations of an OCR cut. By the end of April 2009 the Trade-Weighted Index (TWI) stood at 55.8 points.

International Arrivals



Source: Statistics New Zealand

There was a total of 226,461 international visitor arrivals to New Zealand in March 2009, 31,139 less than international visitor arrivals in February 2009 and less than the 250,806 international visitor arrivals in March 2008. The annual average growth rate in the number of international visitor arrivals was negative 3.9% for the year ended March 2009.

SUMMARY

According to the New Zealand Institute of Economic Research (NZIER) Quarterly Survey of Business Opinion, a net 45% of firms recorded a fall in their own business activity in the March 2009 quarter, with a net 39% expecting a decrease in the June 2009 quarter. While a net 58% anticipated a deterioration of the general economic conditions over the next 6 months, it improved from a net 77% reporting this view in December 2008.

The National Bank Business Outlook survey for April 2009 indicated that a net 15% of firms expected business conditions to deteriorate in 12 months' time, a

significant improvement on a net 39% taking this view in March 2009. Firms' outlook of their own activity also improved significantly, from a net 21% expecting a decrease in 12 month' time in March 2009, to a net 4% taking this view in April 2009. Other key indicators such as employment, investment and profitability all showed improvement.

This economic recession has lasted since early 2008, enduring five straight quarterly contractions in economic activity and possibly the longest recession experienced since the 1970s. Policymakers have been working hard to avoid further deterioration of the economy over the

past year and some encouraging signs of recovery emerged in April 2009. Housing sales showed signs of recovery, dairy prices recovered, households received extra disposable income in the form of tax cuts, interest rates continued to fall and local and global stock markets rebounded. While none of these factors dominated they have all worked together to help rebuild confidence.

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.