



NEW ZEALAND ECONOMIC UPDATE

July 2006

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 Inflation Remained High

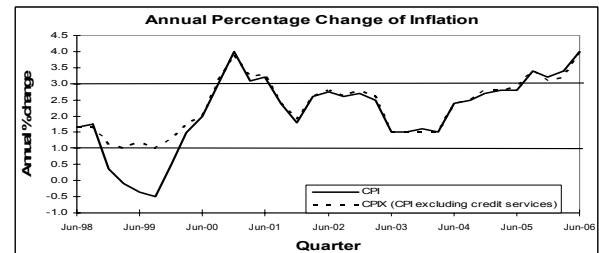
According to Statistics New Zealand, the Consumer Price Index (CPI) rose by 1.5% over the June 2006 quarter. This was above the market and the Reserve Bank of New Zealand's (RBNZ) expectations. This followed an increase of 0.6% recorded in the March 2006 quarter and 0.7% recorded in the December 2005 quarter. From the June 2005 quarter to the June 2006 quarter the CPI rose 4.0%.

Prices in seven out of nine CPI groups increased over the June 2006 quarter. The transportation group made the biggest contribution to the CPI surge. It alone accounted for 10.4 points out of a total CPI index increase of 18.0 points. Prices in this group were 5.5% higher than three months ago and represented the largest quarterly increase recorded since the December 1986 quarter. Not surprisingly, the price of petrol was the culprit. The price at the petrol pump rocketed 14.7% between the March 2006 and June 2006 quarters, the largest quarterly percentage increase since the year to September 1984. If this item was excluded, the overall CPI would have increased by only 2.9%. On an annual basis petrol prices increased by 32.2%.

International airfares were up 7.1% (and 8.7% annually), adding 0.2 percentage points to the CPI. Backed by sales and construction prices for new dwellings (1.4%↑), the housing group increased by 1.2% over the quarter and took the annual percentage increase in this group to 4.8%. The third contributor to the quarterly CPI increase came from the household operation group, which recorded 1.4% growth over the June 2006 quarter. More expensive electricity bills (3.0%↑) and telephone rental and connection costs (4.5%↑) made significant contributions to the quarterly price increases in this group.

Price falls in meat, fish and poultry (2.2%↓) and accommodation and board (3.7%↓) partly offset the upward quarterly percentage CPI growth over the June 2006 quarter.

The June 2006 quarterly increase in the CPI was greater than that forecast by the New Zealand Treasury and confirms that inflation pressures will be high in the short-term. A continuing slowdown in domestic demand should gradually ease inflation pressures.



Source: Reserve Bank of New Zealand and Statistics New Zealand

OCR On Hold at 7.25%

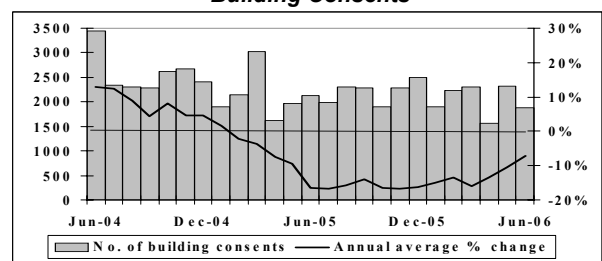
Despite New Zealand inflation exceeding the one to three percent target range, the RBNZ left the Official Cash Rate (OCR) unchanged at 7.25% in its latest review. This outcome was consistent with market expectations.

The larger than expected increase in the June 2006 quarter CPI has not changed the RBNZ's opinion about 'holding' the OCR. There is little chance that oil prices will fall in the short-run, given the ongoing troubles in the Middle East and the US's persistent nuclear related issues with Iran. In addition, the renewed strength in house price appreciation, together with large price increases for fresh fruit and vegetables this winter (due to cold weather) all suggest that headline inflation will remain strong over the September 2006 quarter.

The RBNZ predominantly focuses on second round price effects and medium-term inflation expectations. The RBNZ expects economic growth to remain subdued over 2006 and 2007 and is therefore unlikely to further increase the OCR beyond its present rate.

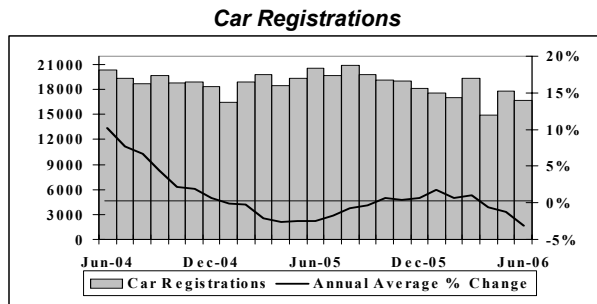
Key Indicator Trends

Building Consents



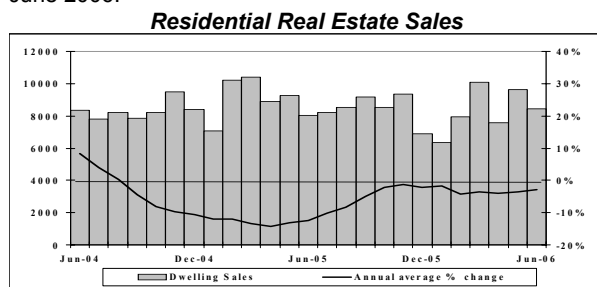
Source: Dept of Statistics Building Surveys and Vitals Section

New Zealand's residential building market was flat in June 2006. The number of consents issued for new dwellings dropped below 2,000 during the month. These had a combined value of \$448.6 million. The number of consents issued in June 2006 was well below the 2,328 consents issued in May 2006 and the 2,129 consents issued in June 2005. The annual average growth rate in the number of new building consents issued in New Zealand was negative 7.2% for the year ended June 2006.



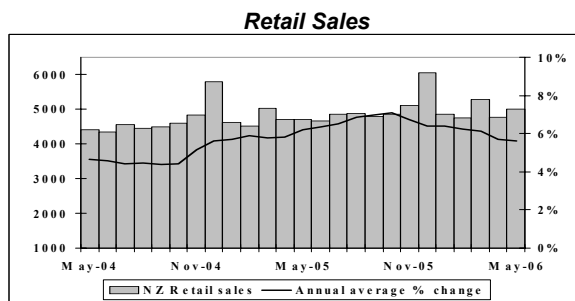
Source: Land Transport Safety Authority

There has been a degree of volatility in the number of national car registrations recorded over the past three months. A total of 16,657 cars (including both new and ex-overseas car types) were registered during June 2006, down from 17,805 registered one month earlier. Interestingly, this was greater number than a recent low of 14,914 registrations recorded in April 2006 but less than the 20,604 car registrations recorded in June 2005. The annual average growth rate in the number of New Zealand car registrations was negative 3.1% for the year ended June 2006.



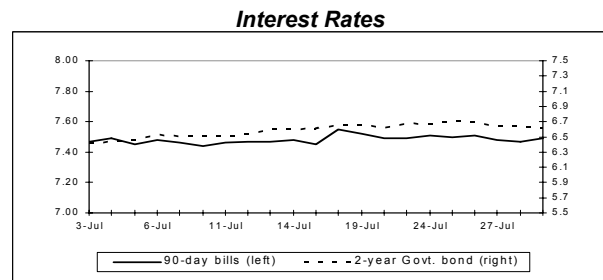
Source: Real Estate Institute of New Zealand

New Zealand's median house sale price reached a new high in June 2006 (\$310,000) and the volume of sales increased by 5.0% between June 2005 and June 2006. The annual average growth rate in the volume of New Zealand house sales was negative 2.9% for the year ended June 2006.



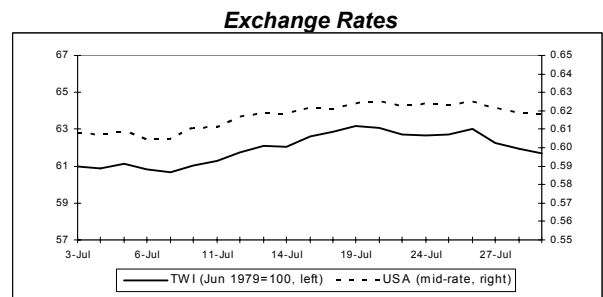
Source: Business Statistics Section, Statistics New Zealand

Retail sales activity remained buoyant nationwide in May 2006. The value of sales reached \$5,011.6 million during the month, sitting above the levels of \$4,781.8 million and \$4,716.4 million recorded in April 2006 and May 2005 respectively. The annual average growth rate in the value of retail sales in New Zealand was 5.6% for the year ended May 2006.



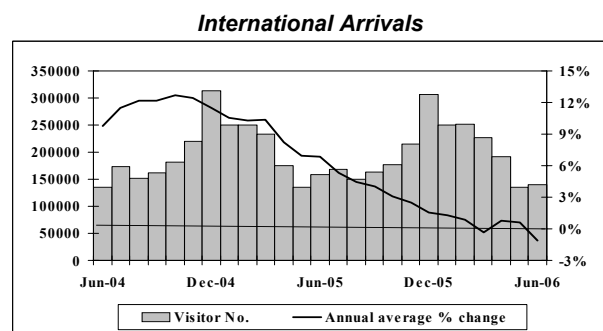
Source: Reserve Bank of New Zealand

Concern about New Zealand's short-run inflation outlook caused wholesale interest rates to increase in mid-July 2006. However, 90-day interest rates fell after the RBNZ's OCR Review, and stood at 7.5% by the end of the month.



Source: Reserve Bank of New Zealand

New Zealand's exchange rate appreciated for the first three weeks of July 2006 largely due to a weak US dollar. However, the fact that the RBNZ held the OCR at 7.25% caused the Kiwi dollar to slide in the last week of July 2006. By the end of the month, NZ \$1.00 was worth around US \$0.62 and the Trade-Weighted Index (TWI) stood at 61.7 points.



Source: Statistics New Zealand

The number of New Zealand international visitor arrivals was subdued in June 2006. While international arrivals rose from 135,279 recorded in May 2006 to 139,891 recorded in June 2006, they decreased by 11.1% compared to the number recorded in June 2005. The annual average growth rate in the number of visitor arrivals to New Zealand was negative 1.1% for year ended June 2006.

Summary

The National Bank's (NB) Business Confidence Survey for July 2006, showed that a net 31% of firms surveyed expected the general business environment to deteriorate in 12 months time. In June's NB Confidence Survey a net 32% of firms took a similar viewpoint.

A high level of pessimism was present in all business sectors. Farmers were the most pessimistic with a net 38% of those surveyed expecting the general economic situation to have deteriorated in 12 months time.

Both retailers and farmers were pessimistic with a net 37% and a net 34% respectively expecting conditions to worsen in a years time. Manufacturers and services firms were less pessimistic; nevertheless pessimists outnumbered optimists by 28% and 26% respectively. However, firms remained positive about their own level of business activity with a net 15% of firms surveyed expecting to increase their level of activity (by volume) and a net 2% expecting to have employed more staff in a years time.

Westpac's Employment Confidence Survey Index (ECSI) for the June 2006 quarter stood at 127.3 points. This was the same value as that measured in the March 2006 quarter (>100 indicating more optimists than pessimists). The level of optimism amongst workers surveyed reflects a tight labour market which is providing a basis for steady wage growth.

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.