



Caught in the rip

Quarterly percentage change

Nine regions recorded a drop in economic activity in the September quarter according to our survey, while activity rose in the five remaining regions. The largest quarterly fall was measured in West Coast, where economic activity slumped 3.1 percent from three months earlier. At the other extreme, the Bay of Plenty recorded the largest lift in economic activity, rising 1.4 percent in the three months to September.

At the nationwide level, our composite index of economic activity edged down 0.1 percent in the three months to September. On an inter-Island basis, the level of economic activity in the North Island was unchanged from three months earlier, while activity in the South Island eased 0.5 percent.

Year-on-year growth

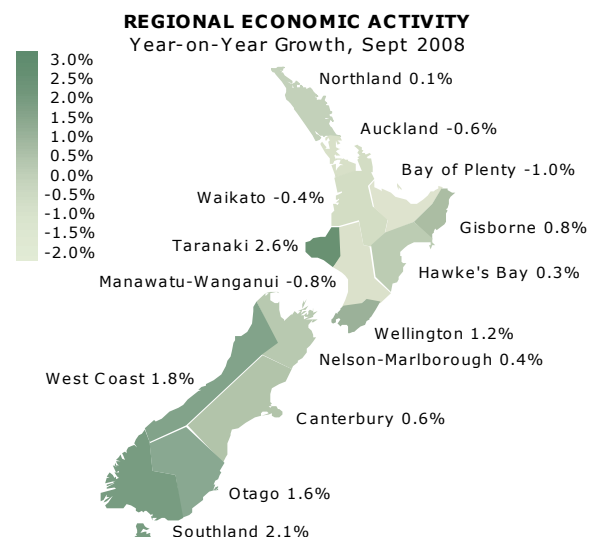
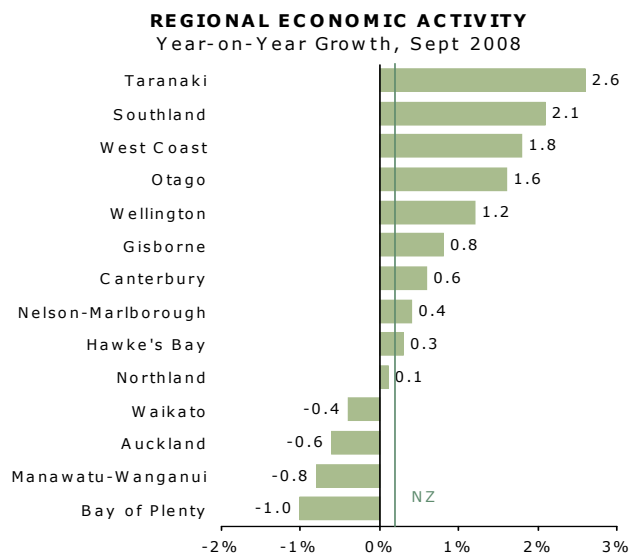
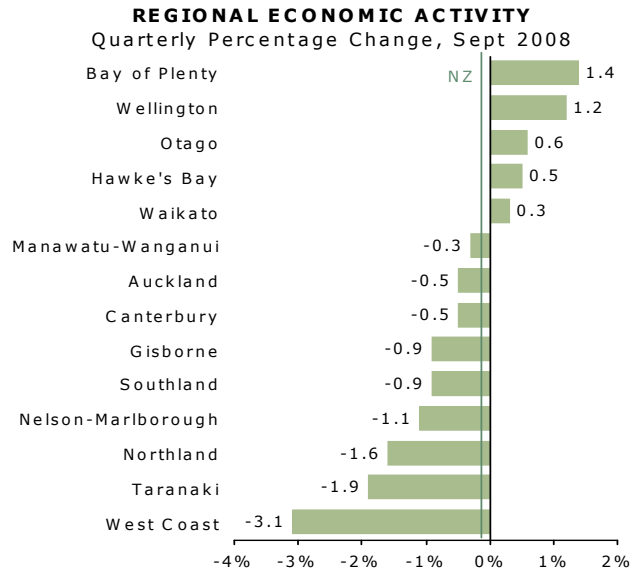
Annual economic growth was higher in the South Island (1.0 percent) and flat in the North Island. Nationwide, the annual rate of economic growth was 0.2 percent.

Ironically, while the Bay of Plenty recorded the strongest quarterly increase in economic activity, it perversely posted the lowest annual rate of economic growth. For the first time since 1999, the Bay recorded the weakest annual rate of economic growth across the regions. Moreover, it was the region's largest year-on-year drop in economic activity in twenty five years.

Also in a perverse fashion, the West Coast – which was undoubtedly the laggard in the September quarter – was the only region to register an acceleration in year-on-year economic growth, lifting from 1.7 percent in June, to 1.8 percent in September.

September quarter at a glance

- **Retail interest rates** fell, coinciding with the first cuts made to the RBNZ Official Cash Rate.
- **The exchange rate** dropped against all our major trading partner currencies, except the Australian dollar.
- **Commodity prices** turned down in the quarter, but rose in NZ dollar terms.
- **Business confidence** rose in every region. Canterbury businesses reported the highest level of confidence, while Hawke's Bay recorded the lowest.
- **Consumer confidence** rebounded in every region. Wellington retained the highest level of household sentiment, while Southland recorded the greatest turnaround, from bottom of the rankings in June to third most positive in September.
- **Retail sales** eased in most regions, led by Nelson-Marlborough.
- **House sales** recovered in most areas. Northland recorded that largest gain, while West Coast reported the greatest fall.
- **Dwelling approvals** dropped in every region except Bay of Plenty. The West Coast had the largest fall, following a surge in the preceding quarter.
- **Commercial building permits** edged down. Gisborne recorded the largest fall and Hawke's Bay the greatest rise.
- **Employment** inched up in the quarter. Wellington recorded the largest rise in employment, while Otago had the greatest fall.
- **The unemployment rate** rose to a 5-year high of 4.2 percent. Gisborne recorded the highest unemployment rate, at 7.2 percent, and Nelson-Marlborough the lowest at 2.6 percent.



Regional Summaries

Northland

Northland recorded the largest rise in the number of homes sold in the September quarter, rising 22 percent from three months earlier. However the average selling price fell 9 percent over the same period, which was the greatest fall across the regions. The number of large farm sales rose 6 percent, but a 12 percent fall in the sales of lifestyle blocks pulled down total real estate sales. A 9 percent drop in accommodation guest nights was the largest reduction across the regions. Both residential and commercial building permits posted double-digit declines (-11 and -14 percent, respectively). Retail sales in Northland eased 1.3 percent (-0.9 percent nationally) and the region's unemployment rate rose to a three year high of 5.4 percent.

Auckland

Auckland has posted three consecutive quarters of economic decline, which is the region's longest successive string of quarterly declines since 1990. Auckland recorded a 27 percent fall in the number of residential building approvals in the September quarter (-17 percent nationally). Commercial building consents also eased in the quarter, dropping 0.9 percent. Consumer confidence was dented in September, coinciding with a 1.3 percent fall in employment in the region and a 1.3 percent drop in retail sales. The number of house sales inched up 1 percent in the quarter, but remain 37 percent below the level of a year ago. The median sale price of Auckland homes in the September quarter was 7 percent lower than three months earlier.

Waikato

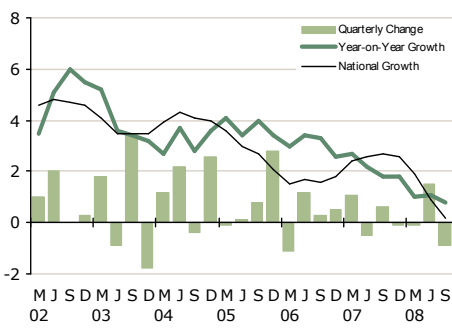
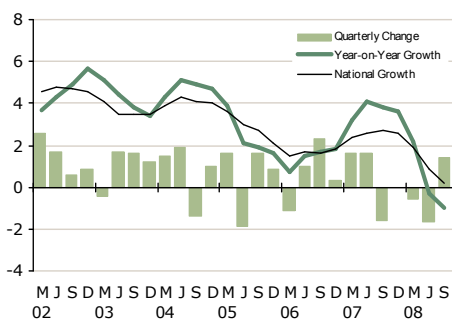
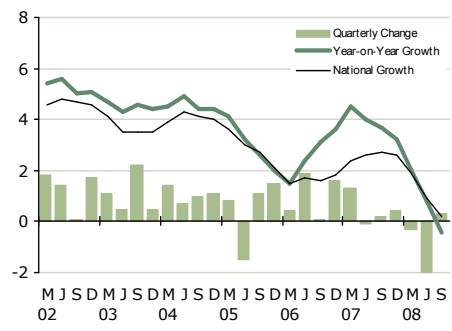
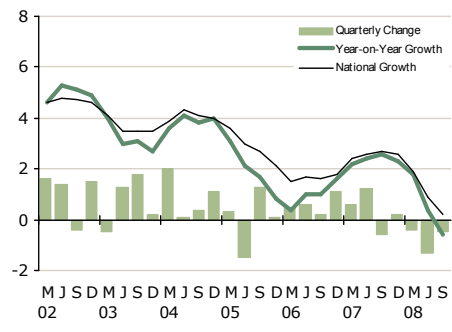
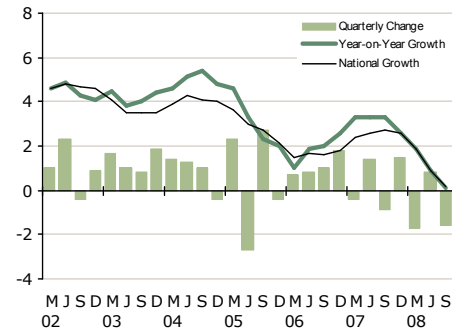
Waikato recorded the second strongest rise in retail sales across the regions in the September quarter, rising 2.4 percent from the June quarter and contrasting a 0.9 percent drop nationally. Employment in the region rose 1.6 percent, overshadowing a 0.1 percent increase for New Zealand. The number of commercial building permits issued rose 8.5 percent, in contrast to a 0.5 percent fall nationwide. The region's real estate market was quieter in September. The number of sales dropped 2.8 percent, the median sale price eased 3 percent and the average length of time to sell a house extended by two weeks, to 69 days.

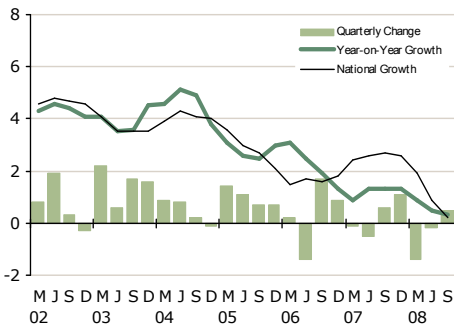
Bay of Plenty

The Bay of Plenty recorded the largest rise in economic activity in the September quarter. The number of dwelling approvals rose 2.8 percent and in contrast to a 17 percent fall nationally. The number of houses sold in the September quarter rose 14 percent from three months earlier (over twice the national rate of increase); meanwhile there was a 50 percent increase in section sales (-15 percent nationally). However, rural real estate sales eased, primarily due to the number of lifestyle blocks sold slipping by 33 percent. The Bay of Plenty retained the second highest level of consumer confidence, while business confidence was knocked off last quarter's top ranking, to also be the second highest across the regions. The Bay recorded a 1.3 percent increase in employment, lifting the number employed in the region to a twelve month high.

Gisborne

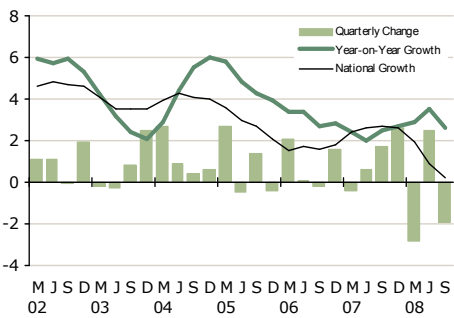
Gisborne recorded a strong rise in the number of houses sold, rising 14 percent in the three months to September – over twice the national rate of increase of 6 percent. New car registrations rose 2.8 percent, at a time when national registrations dropped 9 percent. New commercial motor vehicle registrations also increased in the quarter (up 5.7 percent), contrasting a large fall nationally (-35 percent). Large farm sales slumped in the September quarter, while the sale of lifestyle blocks were up strongly. The number of commercial building permits issued dropped 31 percent, after surging 69 percent in the June quarter. Retail sales slumped 4.9 percent and accommodation guest nights slide 2.8 percent.





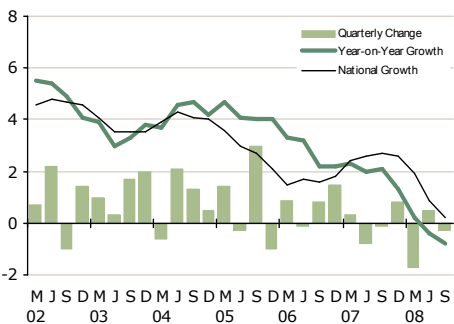
Hawke's Bay

Hawke's Bay recorded the strongest increase in commercial building consents, rising 13 percent in the three months to September, in contrast to a small decline nationally. Residential building approvals fell 9 percent, but this decline was roughly half the 17 percent fall measured nationally. Rural real estate sales rose 5 percent in the September quarter, underpinned by a 14 percent rise in the sale of lifestyle blocks. Businesses in the region reported the lowest level of sentiment across the regions. In addition, consumer confidence was below the national average, despite a 1.3 percent increase in employment. Retail sales fell 2.1 percent, partly reflecting a slump in new car sales, which fell 17 percent in the quarter, to a ten-year low.



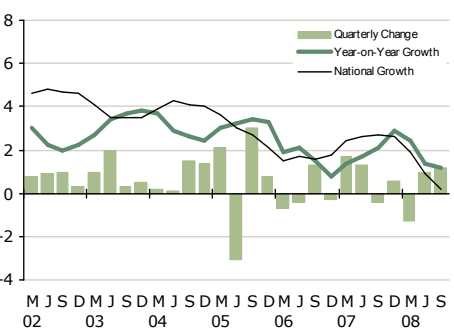
Taranaki

The number of farms sold in Taranaki recorded a large rise, contrasting a decline nationally. Employment in the region posted a 1.5 percent increase (seasonally adjusted) to touch a new record high. Accommodation statistics recorded a 9 percent rise in guest nights, no doubt assisted by the first All Blacks test to be held in the region. Despite these factors, both business and consumer confidence were relatively weaker than most other regions. Coinciding with this was a 3.6 percent fall in retail sales and a 23 percent fall in dwelling approvals. Commercial building consents also dropped in the September quarter, down 11 percent in the region versus a 0.5 percent drop nationwide.



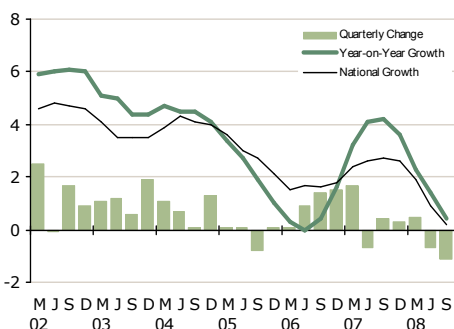
Manawatu-Wanganui

Manawatu-Wanganui enjoyed a modest rise in employment and a sizeable drop in unemployment. Consequently, the region's unemployment rate dropped to a four-year low of 3.9 percent. Rural real estate sales rose 5 percent on the back of a 13 percent lift in the number of lifestyle blocks sold. Retail sales fell 2.0 percent, reflecting a relatively low level of consumer confidence. Likewise, business sentiment was below the nationwide benchmark. The number of houses sold in the region recovered, with the median sale price defying a period of national weakness and rising 3 percent from June. However, sales of sections slumped 44 percent from three months earlier.



Wellington

Wellington retained the highest level of household sentiment in September. Underpinning the boost to consumer confidence was a 6.2 percent rise in employment, lifting the number employed in the region to a two-year high. The number of commercial building permits issued rose 6.1 percent, contrasting a 0.5 percent decline nationally. Residential dwelling approvals recorded a modest dip (down 3 percent) which was relatively minor compared with a 17 percent fall nationally. House sales rose faster than the national average (6.6 and 5.9 percent respectively) and the number of sections sold rose strongly (up 10 percent and contrasting a 15 percent drop nationally). Wellington was the only region to record back to back increases in economic activity over the June and September quarters.

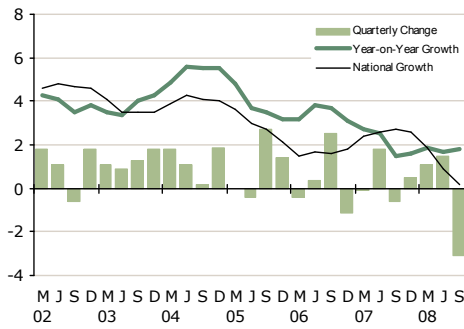


Nelson-Marlborough

Nelson-Marlborough recorded the largest fall in retail sales in the September quarter, dropping 5.7 percent. This coincided with a 17 percent fall in the number of dwelling permits issued and a 15 percent drop in new car registrations. Consumer and business confidence were slightly weaker than the equivalent national benchmarks. Accommodation guest nights dropped 3.1 percent, compared to a 0.9 percent decline nationally. The number of house sales rose 14 percent, more than twice the national rise (6 percent). Sales of lifestyle blocks increased 23 percent and contrasted a 4 percent drop nationwide.

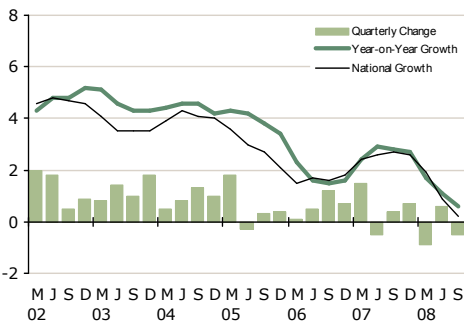
West Coast

The West Coast suffered the largest quarterly slump across the regions in the September quarter. Following a surge last quarter, the number of residential building approvals fell to a three-year low. The number of homes sold fell 18 percent, at a time when sale numbers picked up in most other regions. The number of sections sold also fell, dropping to a six-year low. The number of commercial building permits issued in the region returned to more normal levels, after a large rise in the preceding quarter. New car and commercial motor vehicle sales recorded falls of 17 and 37 percent, respectively. Rises were reported in retail sales and accommodation guest nights.



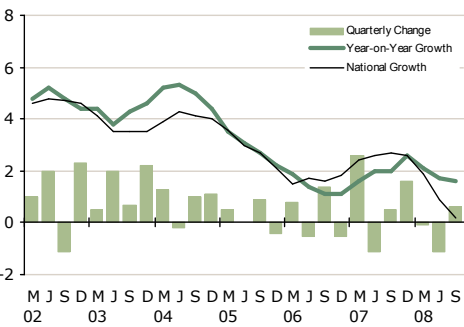
Canterbury

Businesses in Canterbury reported the highest level of sentiment across the regions. Consumer confidence was also above the national average, despite a large drop in employment (down 1.2 percent in the September quarter) and retail sales (down 1.5 percent). The number of houses sold increased 12 percent, twice the national rate of increase. Accommodation guest nights rose 3.2 percent, contrasting a 0.9 percent decline nationally. Sales of lifestyle blocks recorded a 5 percent rise but total rural sales were dragged down by a 1 percent fall in large farm sales.



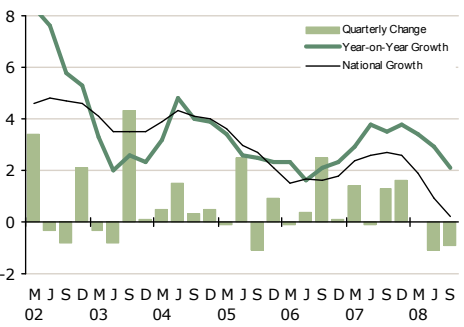
Otago

Otago recorded the third strongest rise in retail sales in the September quarter, up 0.8 percent, and contrasting a 0.9 percent fall nationally. Similarly accommodation guest night rose 0.7 percent in Otago and fell 0.9 percent nationally. The number of homes sold in the region rose 12 percent in the September quarter, twice the national rise of 6 percent. However section sales fell sharply, dropping to a ten-year low. Employment also fell sharply in Otago, retracing 2.3 percent from a strong rise three months earlier. Rural real estate sales fell in September, with both lifestyle blocks and farm sales dropping (falls of 19 and 29 percent, respectively). Measures of business and consumer confidence in Otago both fell short of their respective national averages.



Southland

Southland's real estate market deteriorated in the September quarter. The number of sales fell 12 percent (up 6 percent nationally), the median selling price slipped 4 percent and the average time to sell lengthened by 13 days from June, to 51 days. Sale figures in the rural areas also eased. The number of rural real estate sales dropped 19 percent, while the average sale price slipped 15 percent. Business confidence was third from the bottom of the regional rankings table but, on a positive note, Southland recorded the third highest level of consumer confidence in the September quarter. A slight (0.1 percent) rise in employment matched the national rate of increase. Retail sales and residential dwelling approvals dropped but the fall was not as steep as the national average.



The National Bank

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DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing**Experience**

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

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In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;

- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

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The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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