



NZ Real GDP Q2/08 and Trend Analysis

26th September 2008

Q2/08 Analysis

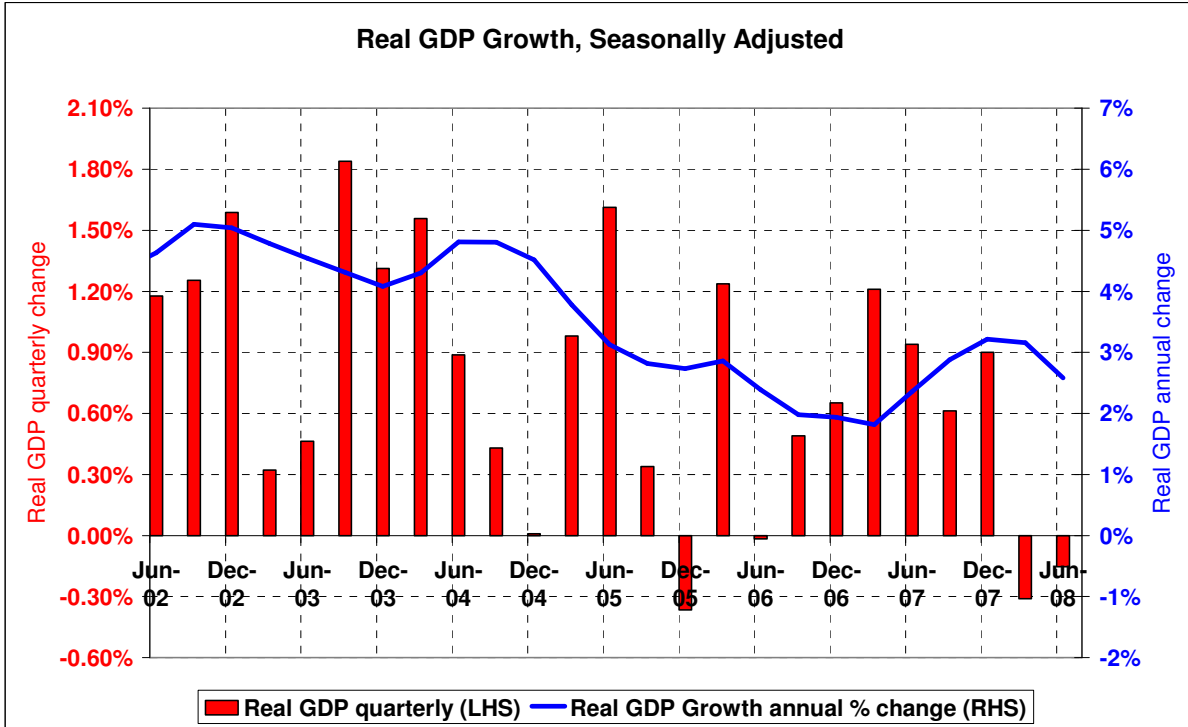
- Real GDP growth data showed the economy contracted by -0.2%qoq in Q2/08 on a production based measure with annual average growth of 2.6% to June 2008 (1.0%yoy). Growth by the measure was as expected by RBNZ forecasts but stronger than the market median and APRM forecast of -0.5%qoq. Furthermore, risks were thought to be to the downside. Quarterly growth declined the most within construction (-3.8%qoq driven by ongoing deterioration in the residential housing market), retail, accommodation & restaurants (-1.9%qoq driven by sharply weaker consumer spending) and electricity, gas & water (-1.5%qoq likely driven by the hydro-electricity shortages). Of surprise, agriculture was less negative than expected at -0.6%qoq while finance, insurance & business services fell 0.7%qoq consistent with finance company bankruptcies, global credit meltdown etc.
- Manufacturing was surprisingly strong at 1.4%qoq, while the transport & communications sector grew by 1.2%qoq and govt. admin & defence by 1.0%qoq. Looking forward there appears an element of growth in Q2 being 'borrowed' from Q3; RBNZ expectations for Q3 real GDP growth are -0.3%qoq and will likely be subject to downside risks. Ongoing sharply slowing credit growth and the housing market indicate further contraction in activity ahead and recent finance company turmoil will see further funding reduced to the construction sector. While consumer confidence has improved for the meantime, the global economic, financial and credit outlook has deteriorated.

	Agriculture	Fishing, forestry and mining	Manufacturing	Electricity, gas and water	Construction	Wholesale trade	Retail, accommodation and restaurants	Transport and communication	Finance, insurance and business services	Govt admin and defence	Personal and community services	Gross domestic product
June qoq%	-0.6%	-0.5%	1.4%	-1.5%	-3.8%	-1.2%	-1.9%	1.2%	-0.7%	1.0%	0.4%	-0.2%
June yoy%	-3.8%	21.8%	0.4%	-4.4%	-6.0%	1.1%	-1.4%	5.5%	1.6%	5.3%	2.0%	1.0%

- From an expenditure perspective Real GDP contracted by 0.5%qoq to be 0.3% lower than a year ago. The negative quarter was driven by declining residential building investments, declining (private) consumption, declining exports and rising imports. General govt. consumption rose.

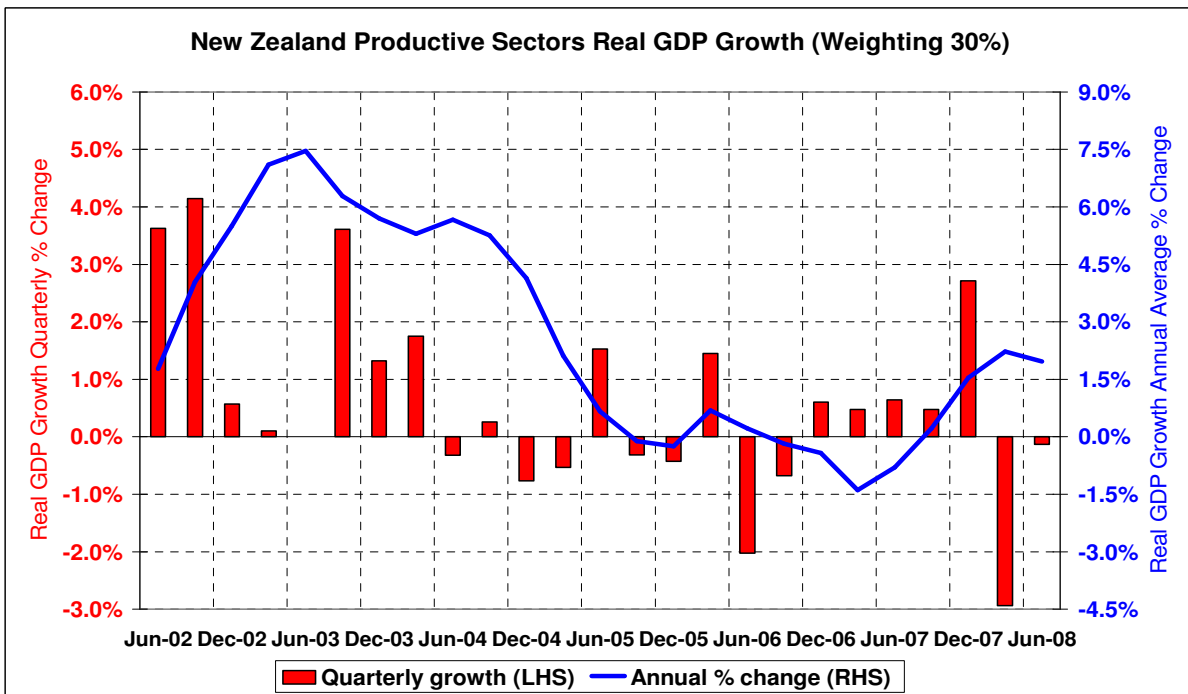
Real GDP Growth Trend Analysis

Annual average growth of 2.6% for the June 2008 year versus the June 2007 year compares with an average rate of 3.2% across the last 5 years.



Productive Sectors

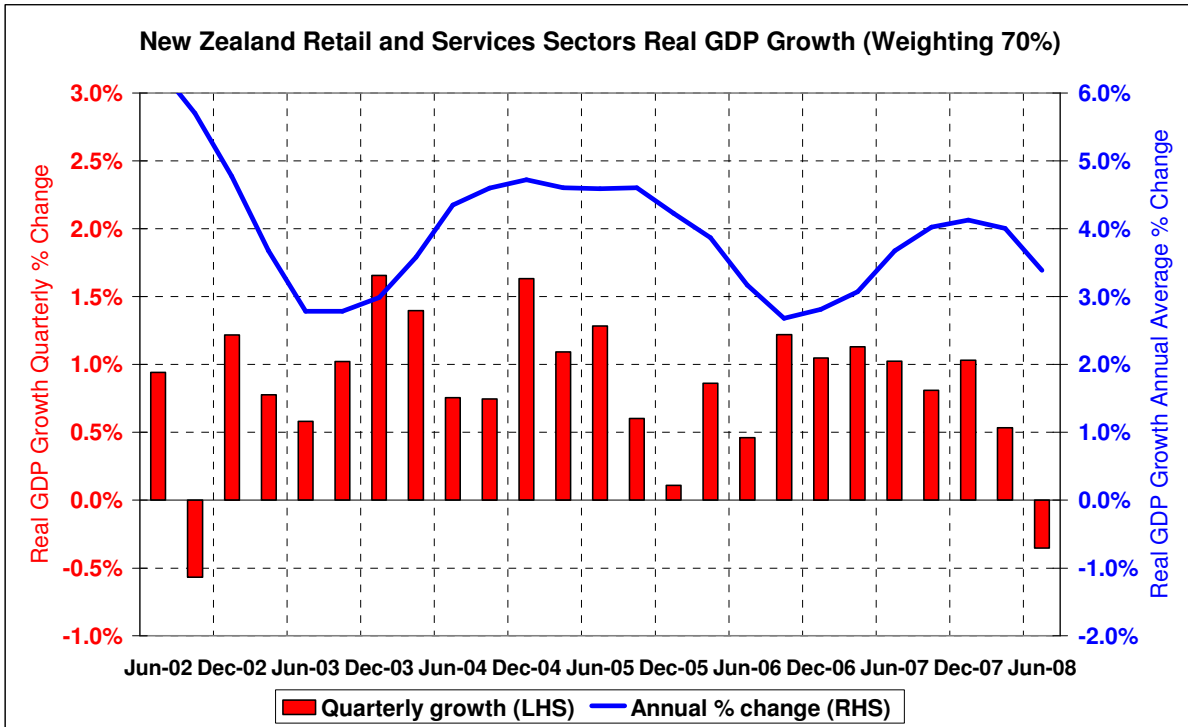
The 'productive' sectors contracted very modestly by 0.1% in Q2/08. Weakness in the quarter was predominantly driven by construction, electricity/gas/water and fishing/forestry/mining (following previous rapid growth around the emergence of the Tui oil field). On an annual average basis growth in the productive sectors of the economy has been positive for the last 4 quarters (currently at 2.0%) mainly reflecting the emergence of the Tui oil field. The global food boom and weakening NZD should also support agriculture, fishing and (food) manufacturing over the quarters / years ahead.



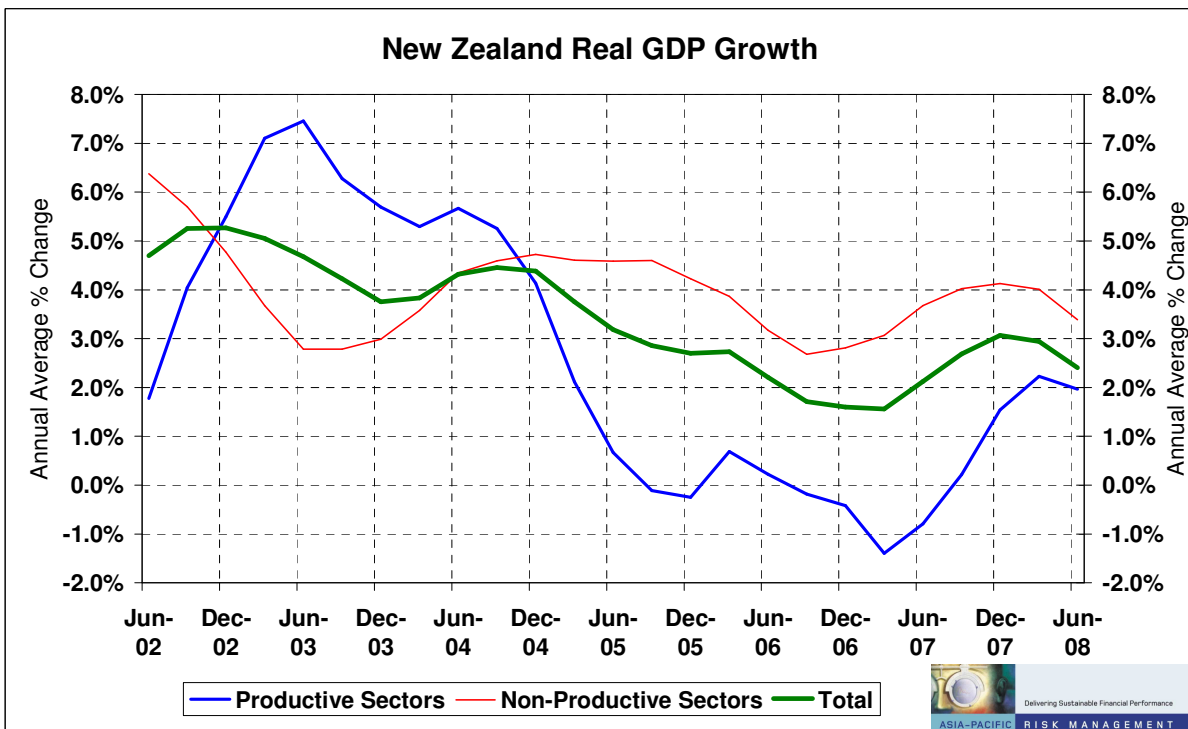
Approximate weighting of Productive Industries within total economy: Agriculture: 5.2%, Fishing Forestry Mining 2.5%, Manufacturing 15.7%, Electricity Gas Water 2.0%, Construction 4.7%.

Retail and Services Sectors

The retail and services sectors of the economy have had strong uninterrupted growth over the last five years until these contracted by 0.4% in the June 2008 quarter (3.4% in annual average terms for the year to June 2008). Weakness in the latest quarter was driven by wholesale sales, retail sales and finance, insurance & business services.

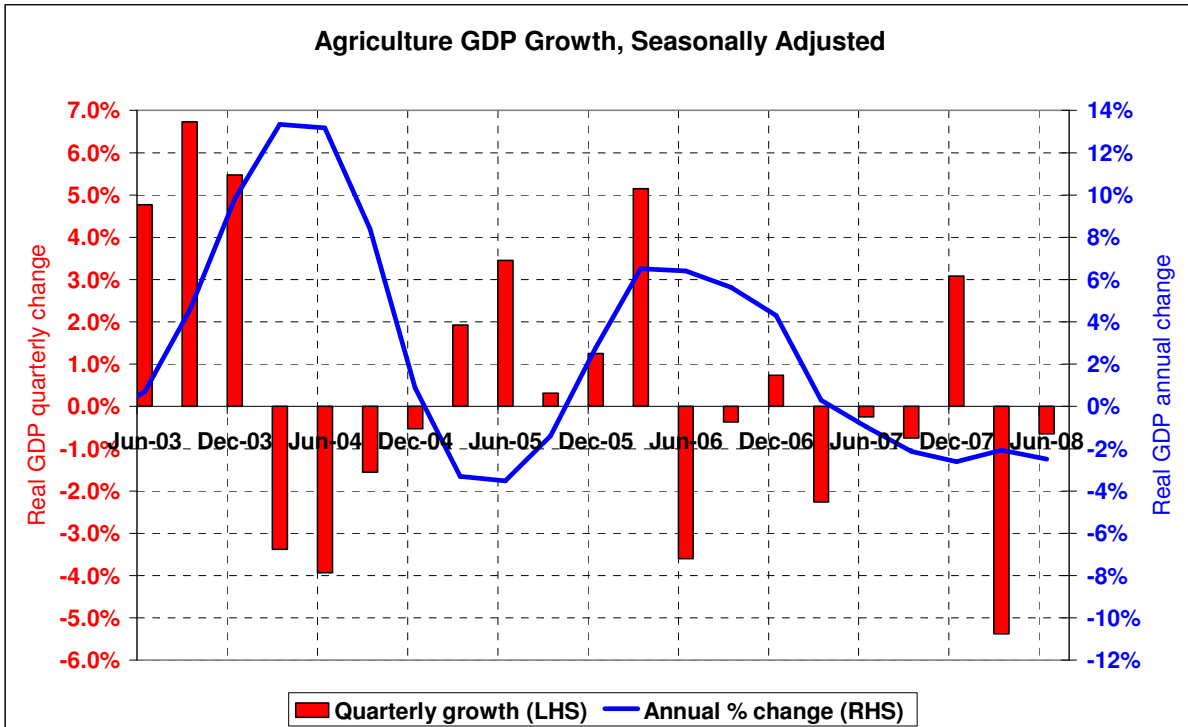


Approximate weighting of Retail and Services Industries within total economy: Wholesale Trade 8.2%, Retail Accommodation Restaurants 7.8%, Transport & Communication 10.5%, Finance Insurance Business Services 26.5%, Govt. Admin Defence 4.3%, Personal Community Services 12.5%.

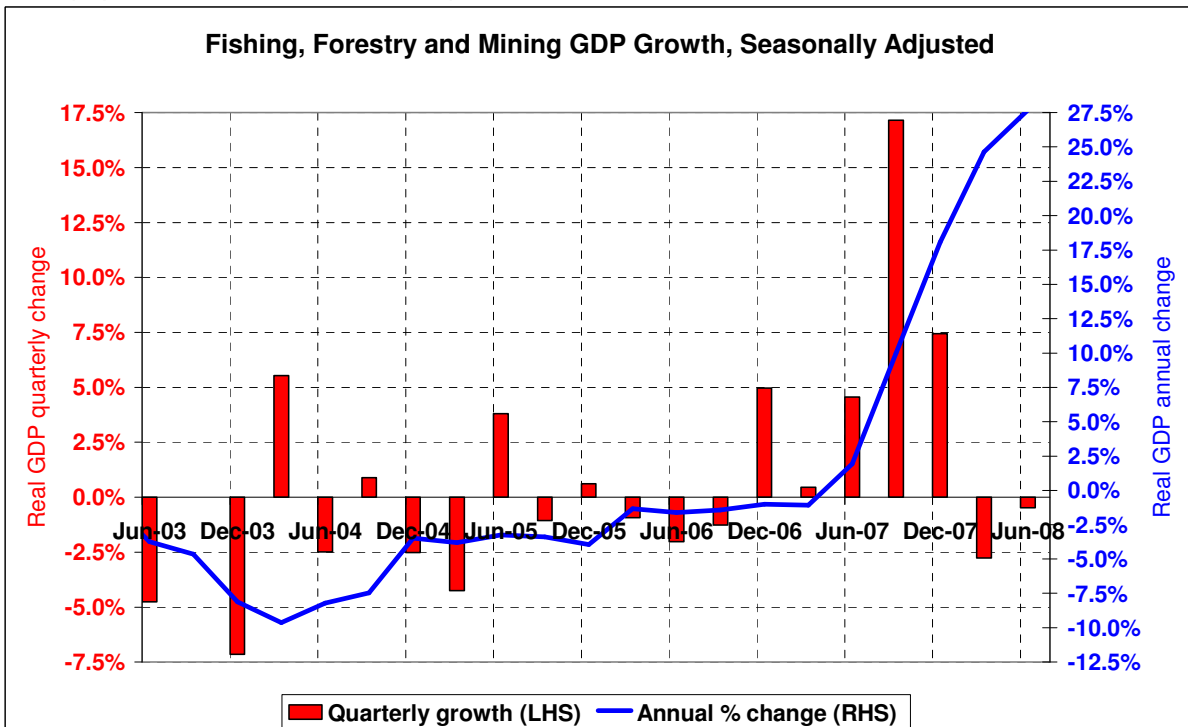


Industry Analysis

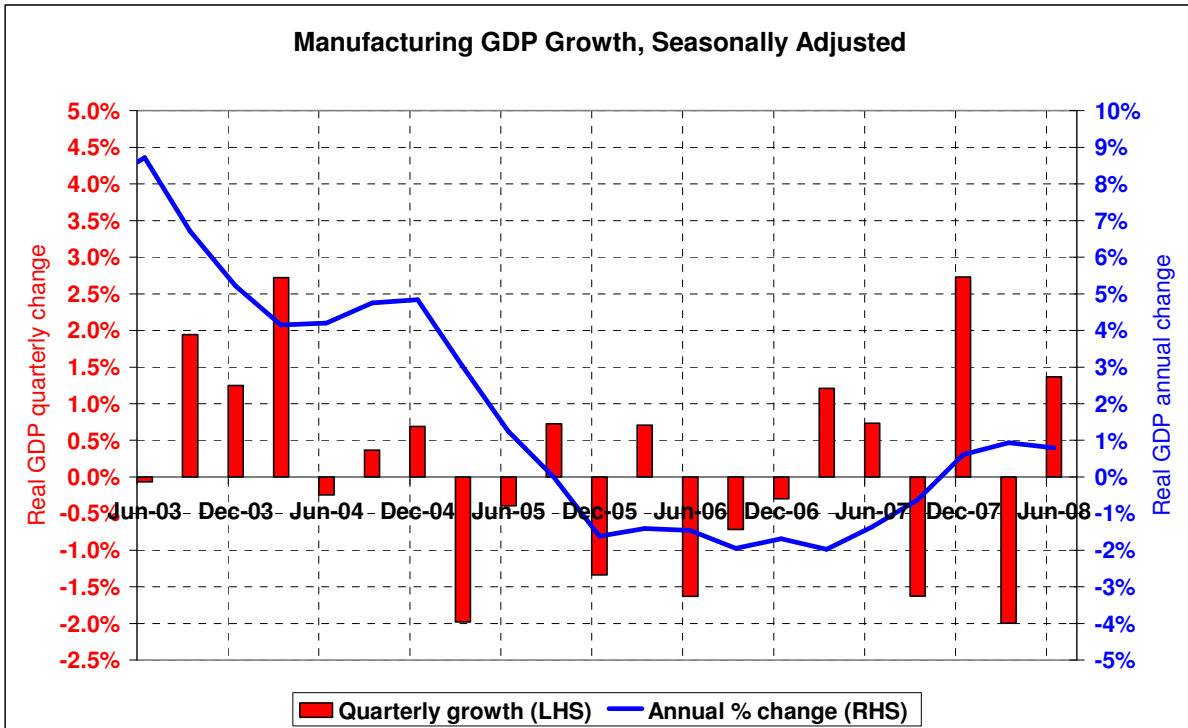
The **Agriculture** component of Real GDP growth contracted by 0.6% in Q2 following a 5.4%qoq decrease in the previous quarter. Annual average growth in the Agriculture sector was -2.5% in the year to June 2008 and has been negative for the last 5 quarters.



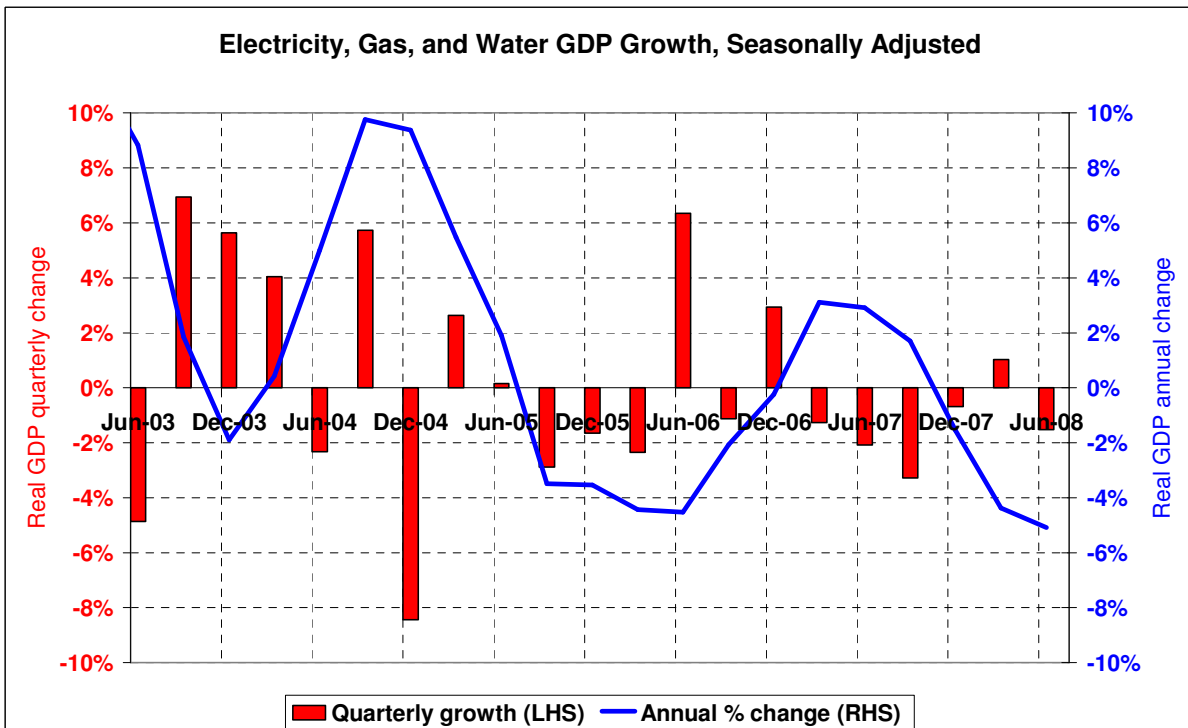
Fishing, Forestry and Mining annual average GDP growth has surged to 27.7% in the year to June 2008 reflecting the emergence of production from the Tui oil field and despite a 2.8%qoq and 0.5%qoq contraction over the last 2 quarters.



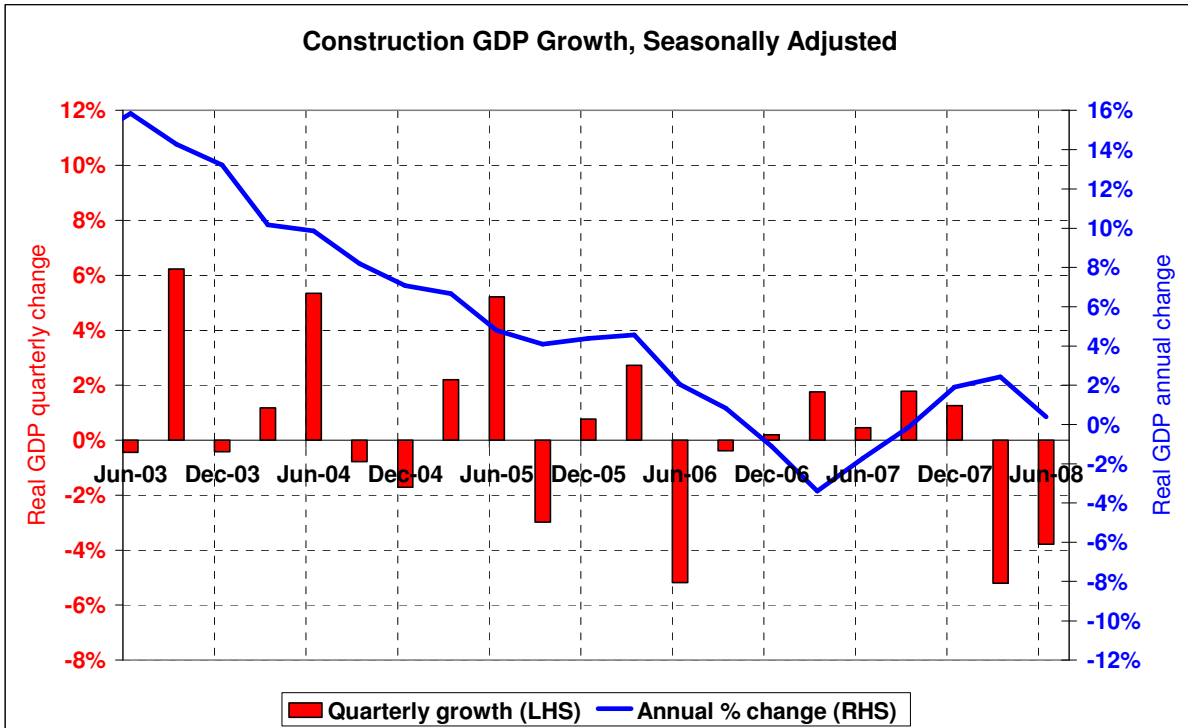
Manufacturing grew by 1.4%qq in Q2 with annual average growth of 0.8% having turned positive over the last 3 quarters following an extended period of contraction.



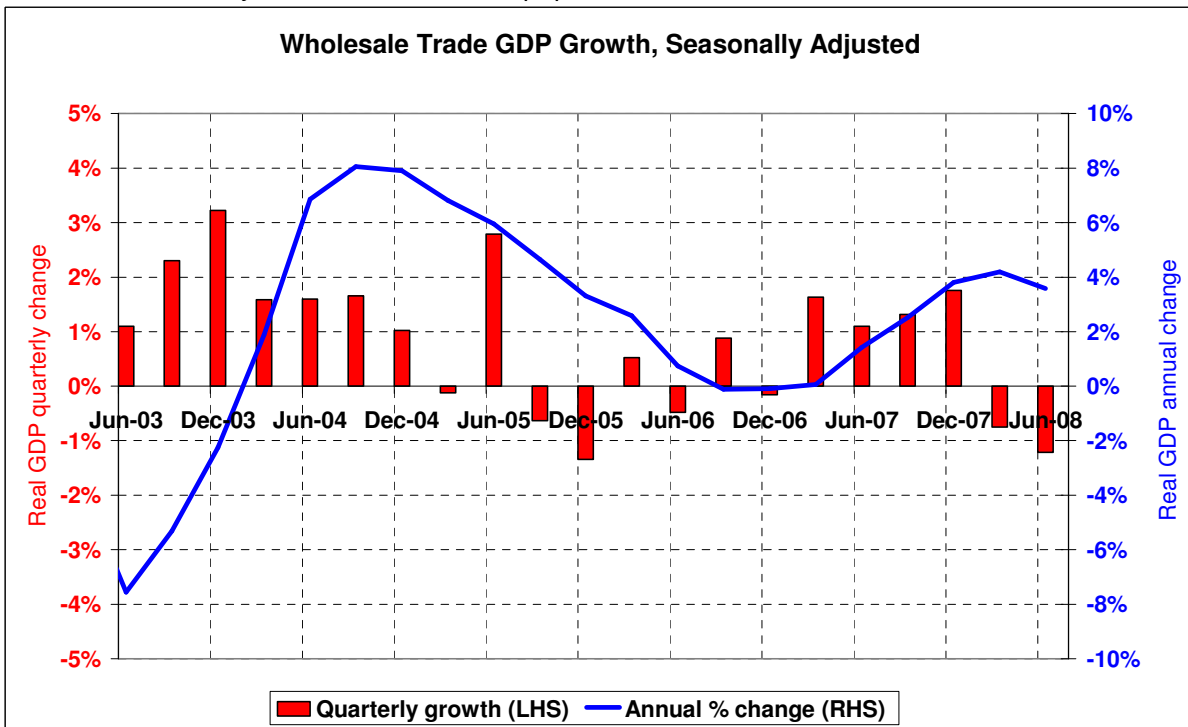
Electricity, Gas, and Water annual average GDP growth contracted sharply to -5.1% for the year to June 2008.



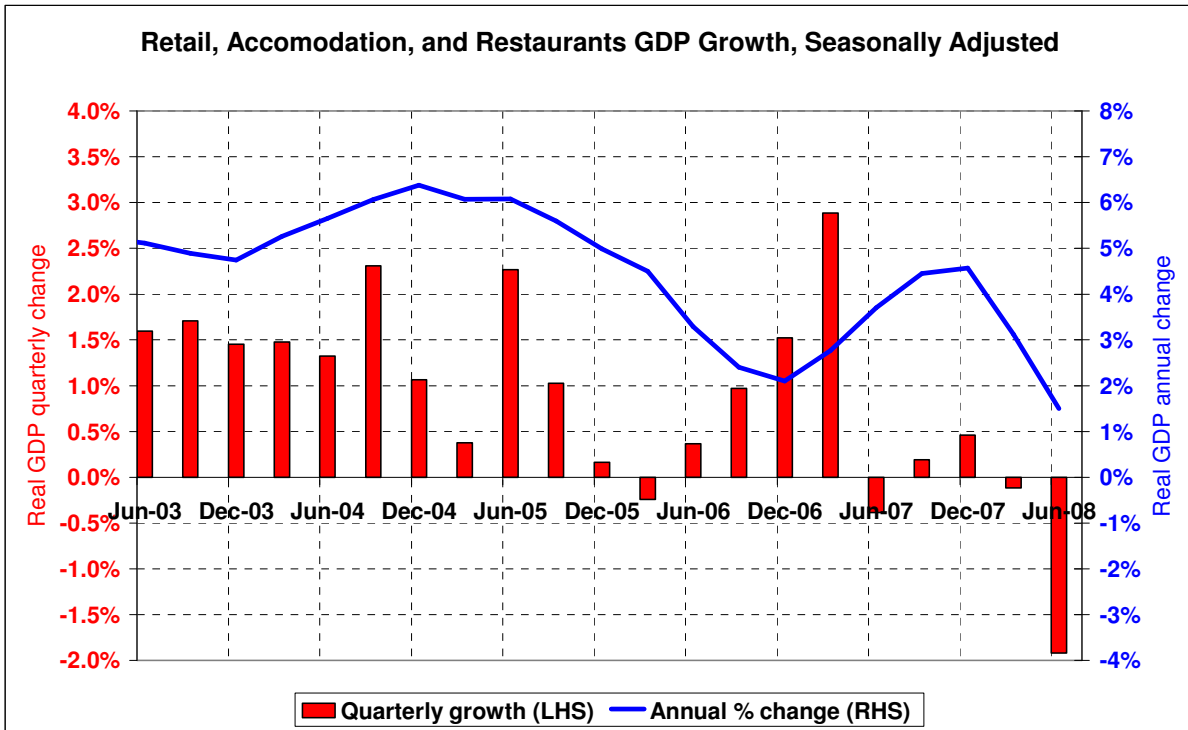
Construction activity contracted by 3.8%qoq in Q2/08 following -5.2%qoq in Q1. Annual average growth for the year to June 2008 remained positive at 0.4% but has been either negative or subdued for the past 2 years following previous strong growth.



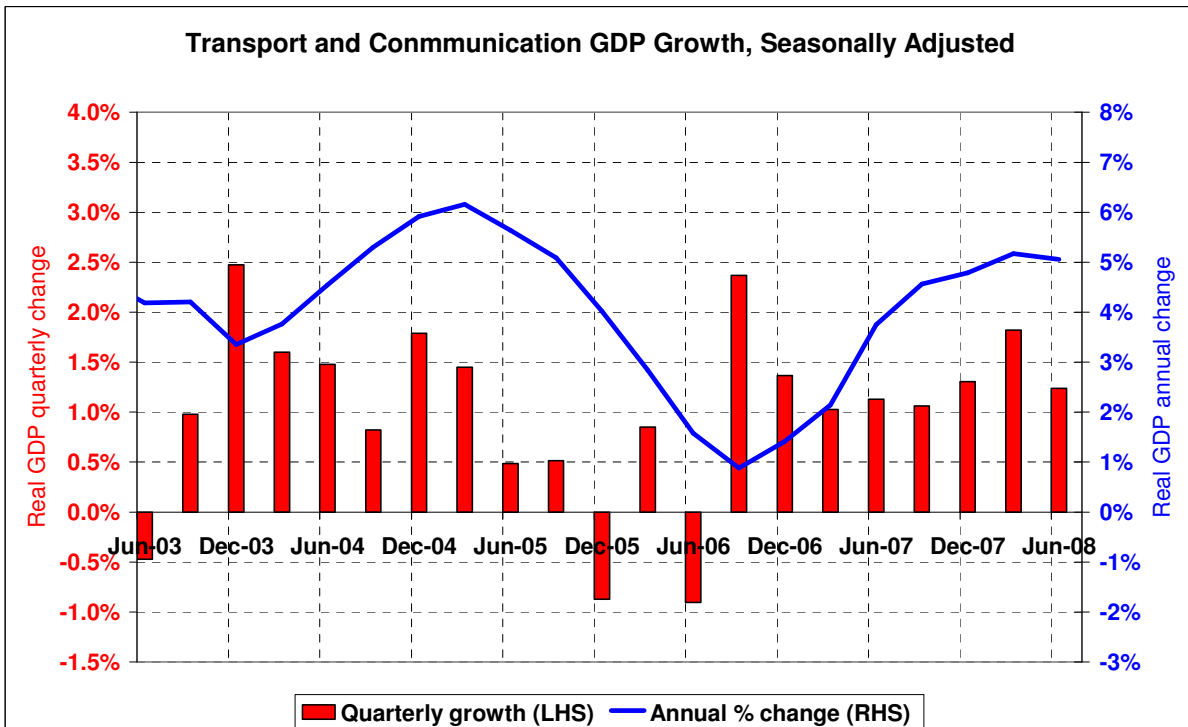
Wholesale Trade annual average growth for the year to June 2008 was 3.6% despite a 1.2%qoq contraction in activity in Q2/08 and a 0.8%qoq contraction in Q1.



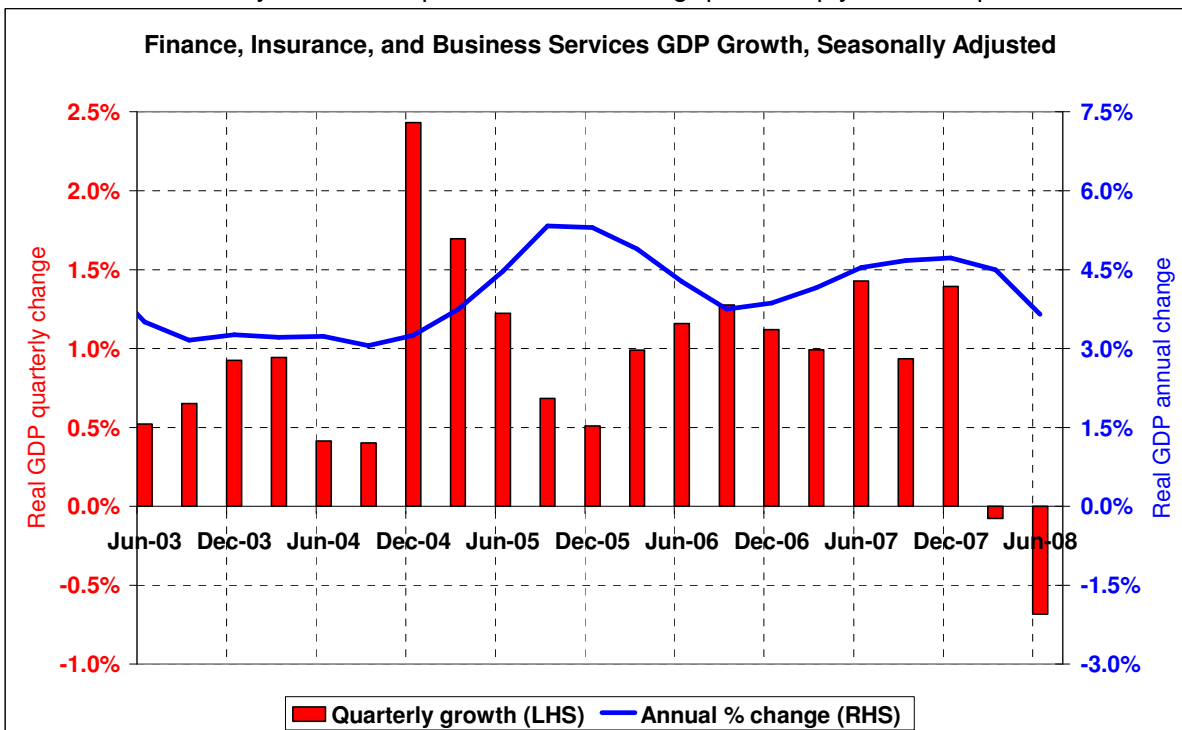
Retail, Accommodation, and Restaurant contracted by 1.9%qoq in Q2/08 with annual average growth of 1.5% for the year to June 2008. Annual average growth of retail, accommodation and restaurant is in the process of declining sharply following an extended period of uninterrupted growth.



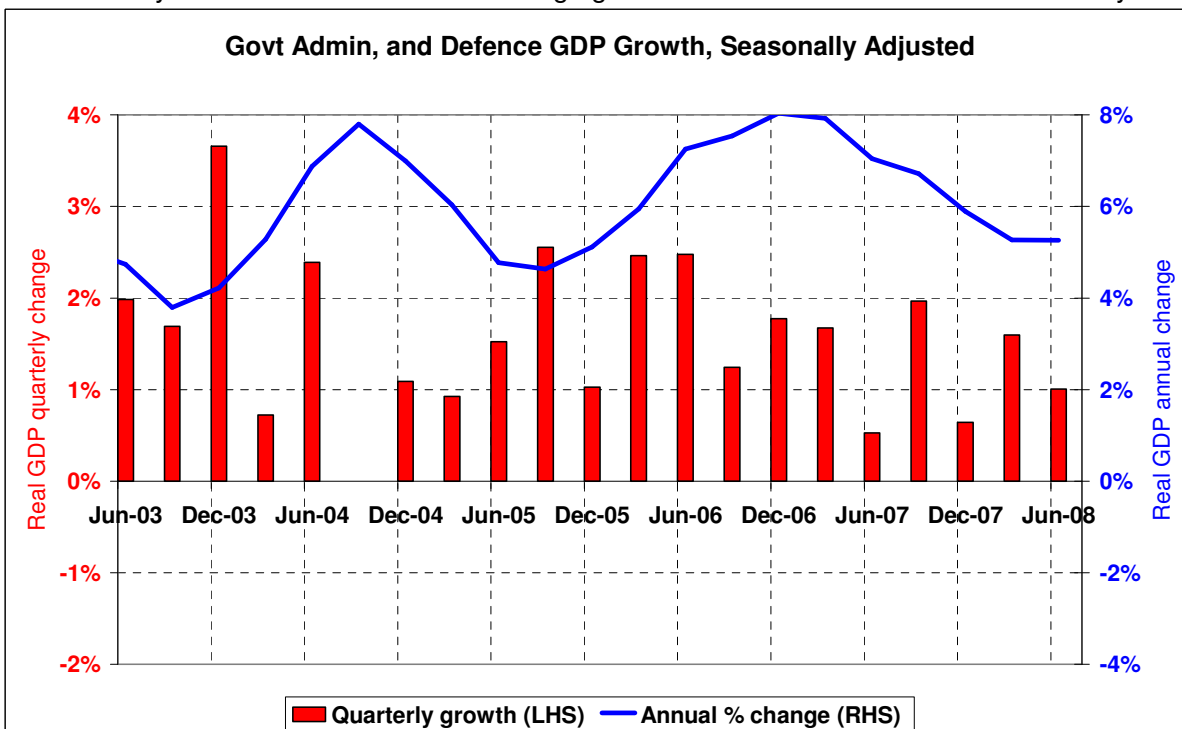
Transport and Communication has remained strong growing by 1.2%qoq in Q2/08 and with annual average growth at 5.1% for the year to June 2008.



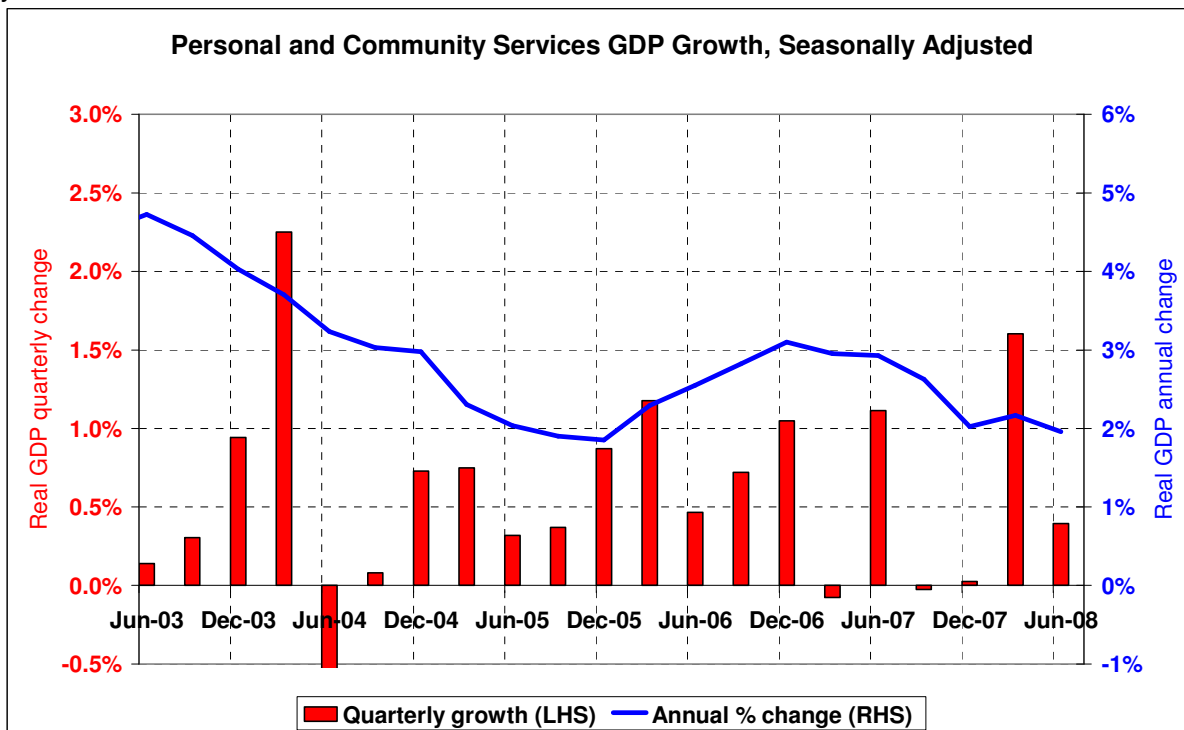
Finance, Insurance and Business Services contracted by 0.7%qoq in Q2/08 – marking 2 consecutive falls. Growth on an annual average basis remained strong at 3.7% for the year to June 2008 but is likely to be in the process of weakening quite sharply over the quarters ahead.



Govt. Admin and Defence grew strongly by 1.0%qoq in Q2/08 with annual average growth of 5.3% for the year to June 2008. Annual average growth has been above 4.0% for the last 5 years.



Personal and Community Services grew by 0.4%qqq in Q2/08. Annual average growth for the year to June 2008 was 2.0%.



DISCLAIMER: The information contained in this letter is given in good faith and has been derived from sources believed to be reliable and accurate. However, neither Asia-Pacific Risk Management Limited nor any of its employees, gives any warranty of reliability of accuracy nor accepts any responsibility arising in any other way (including by reason of negligence) for errors or omissions herein.