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September 2008 New Zealand Consumer Price Index

General

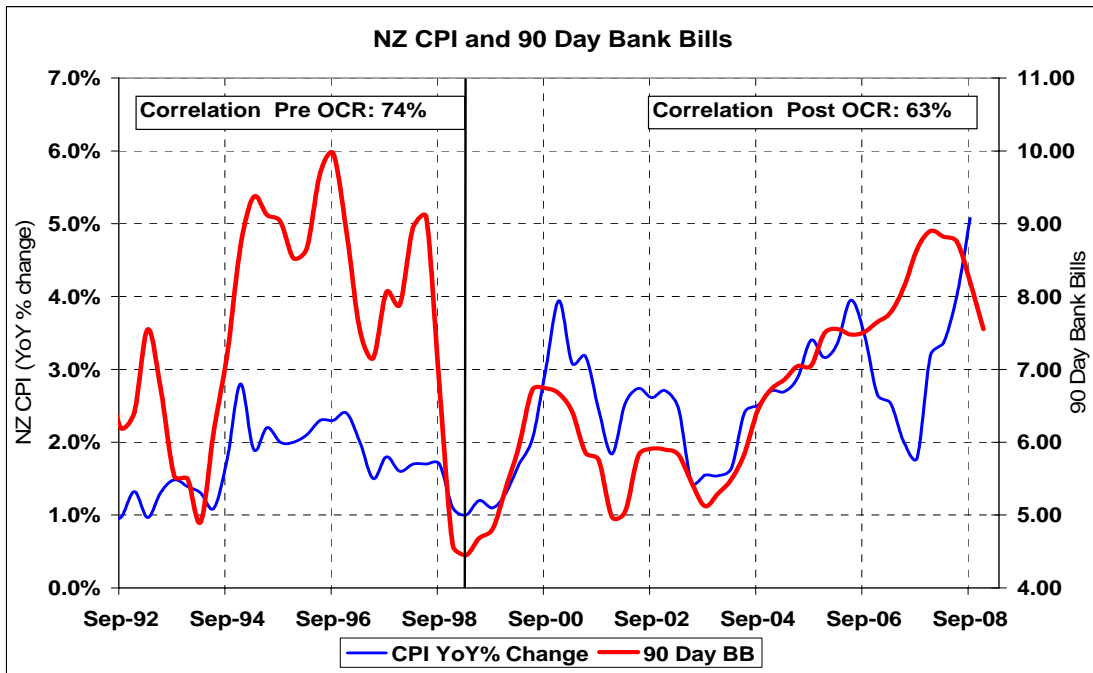
September 2008 CPI inflation of 1.5%qoq/5.1%yoy was slightly stronger than RBNZ and APRM forecasts for 1.3%qoq/4.9%yoy and 1.2%qoq/4.8%yoy headline inflation respectively but equal to market median forecasts. The non-tradable inflation rate of 1.3%qoq/4.1%yoy was higher than the RBNZ forecast of 3.9%yoy. The tradable inflation rate of 1.9%qoq/6.3%yoy was higher than the RBNZ forecast of 5.9%yoy

	Weight	Actual Q2/08 qoq%	APRM Forecasts		Actuals			
			Q3/08 qoq%	Sept 2008 yoy%	Q2/08 qoq%	Quarterly contribution	June 2008 yoy%	Annual contribution
Food	18%	2.2%	3.6%	9.4%	3.7%	0.7%	9.5%	1.7%
Alcohol & Tobacco	7%	-0.2%	0.0%	1.2%	1.3%	0.1%	2.6%	0.2%
Clothing & Footwear	4%	0.6%	-1.0%	-0.9%	-0.4%	0.0%	-0.3%	0.0%
Housing and Utilities	23%	1.2%	1.4%	4.6%	1.4%	0.3%	4.7%	1.1%
Household Contents	5%	0.3%	-1.0%	-1.4%	0.8%	0.0%	0.4%	0.0%
Health	5%	1.0%	0.7%	2.5%	1.4%	0.1%	3.2%	0.2%
Transport	16%	4.9%	2.0%	11.4%	2.0%	0.3%	11.3%	1.8%
Communications	3%	0.5%	-0.4%	-0.5%	-1.1%	0.0%	-1.2%	0.0%
Recreation & Culture	10%	-0.5%	0.1%	-0.6%	0.8%	0.1%	0.1%	0.0%
Education	2%	0.0%	0.3%	3.9%	0.1%	0.0%	3.7%	0.1%
Misc. Goods & Services	7%	0.4%	0.8%	2.5%	0.5%	0.0%	2.2%	0.2%
Total	100%	1.6%	1.2%	4.8%	1.5%	1.5%	5.1%	5.1%

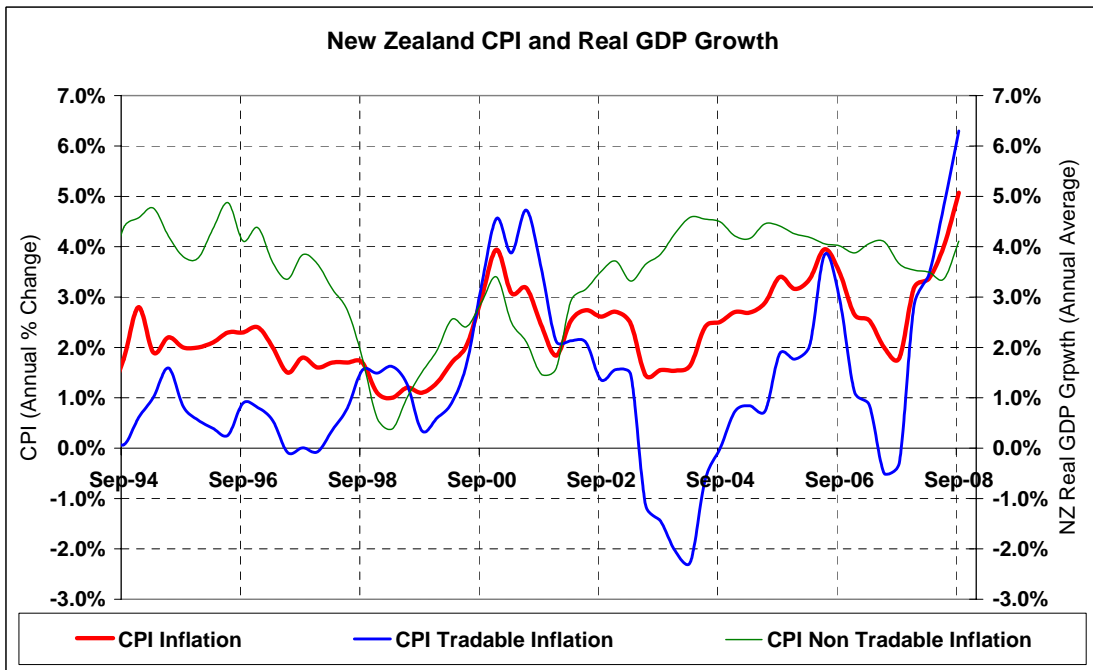
For the quarter 0.7% of the 1.5% increase was made up by increases in food prices (that are uncontrollable by interest rates) and 0.3% by petrol (likewise). Another 0.2% was made up of household energy and local authority rates. The main surprise in the data was the 1.6% increase in household appliances that may reflect previous increases in raw materials prices.

On an annual basis 1.7% of the 5.1% was made up by increases in food prices and a further 1.8% by transport (2.0% of which is private transport supplies – i.e. mainly petrol). Statistics New Zealand report CPI less food, household energy and vehicle fuels (i.e. a definition of Core CPI) being 2.1%yoy, this up from 1.5%yoy in Q2 due to a 0.8%qoq increase by this measure in the quarter.

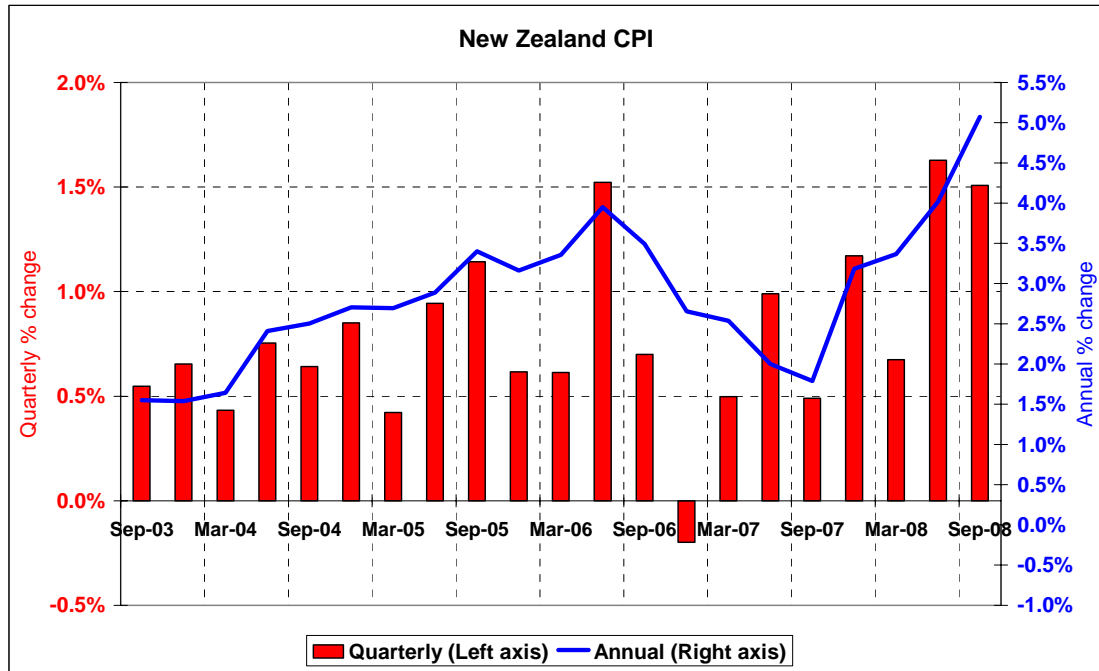
Domestic Monetary Policy has begun to loosen and there are expectations for further aggressive monetary policy easing based on the expectation ongoing weak economic activity will alleviate capacity constraints and result in weaker underlying inflation. The question for the RBNZ will be what happens early next year when the OCR has been reduced to a 'neutral' setting and if the domestic and external economic outlook remains poor, but underlying inflation pressures are not easing. However, this scenario appears unlikely – while it may be possible that an element of elevated headline food and oil price inflation early in 2008 has been 'passed through' to underlying inflation over mid to late 2008, the now sharp easing in headline commodity prices and weak pricing power of businesses means this would be unlikely to continue.



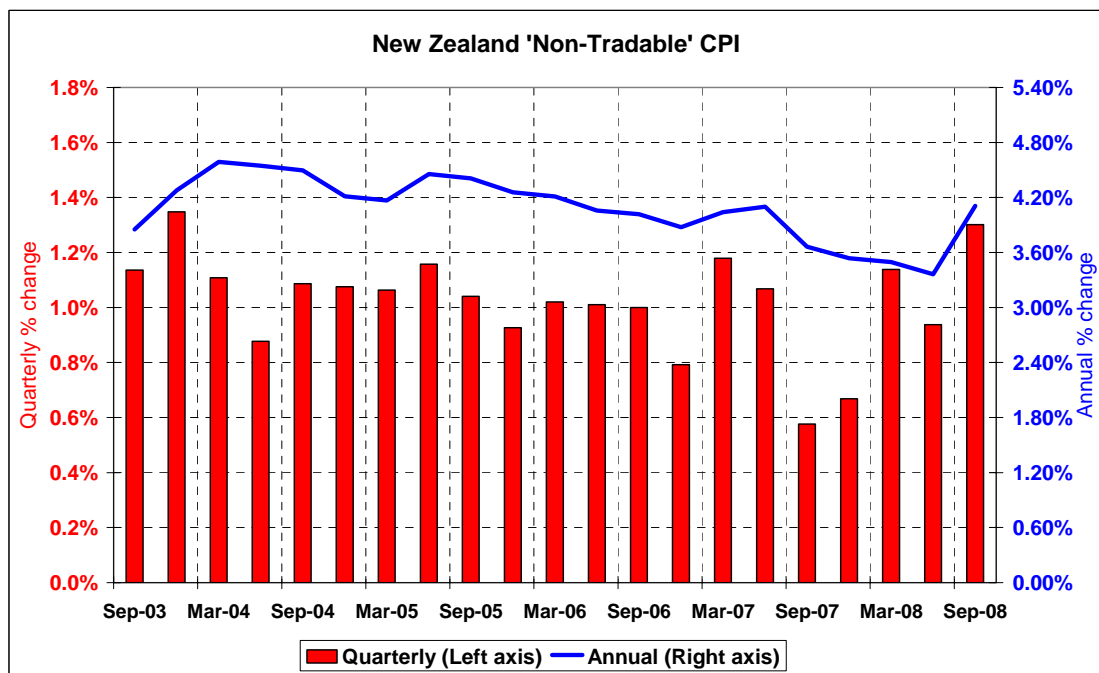
New Zealand CPI pressures are strongest in the 'Tradable' sector reflecting the surges in both petrol and food prices (detail further below) where the effect of more recently observed sharp falls in market prices will contribute to sharply weaker CPI inflation in Q4. The 'Non-Tradable' sector inflation that is sensitive to domestic economic developments and domestic monetary policy moved higher to a greater extent than was expected in Q3.

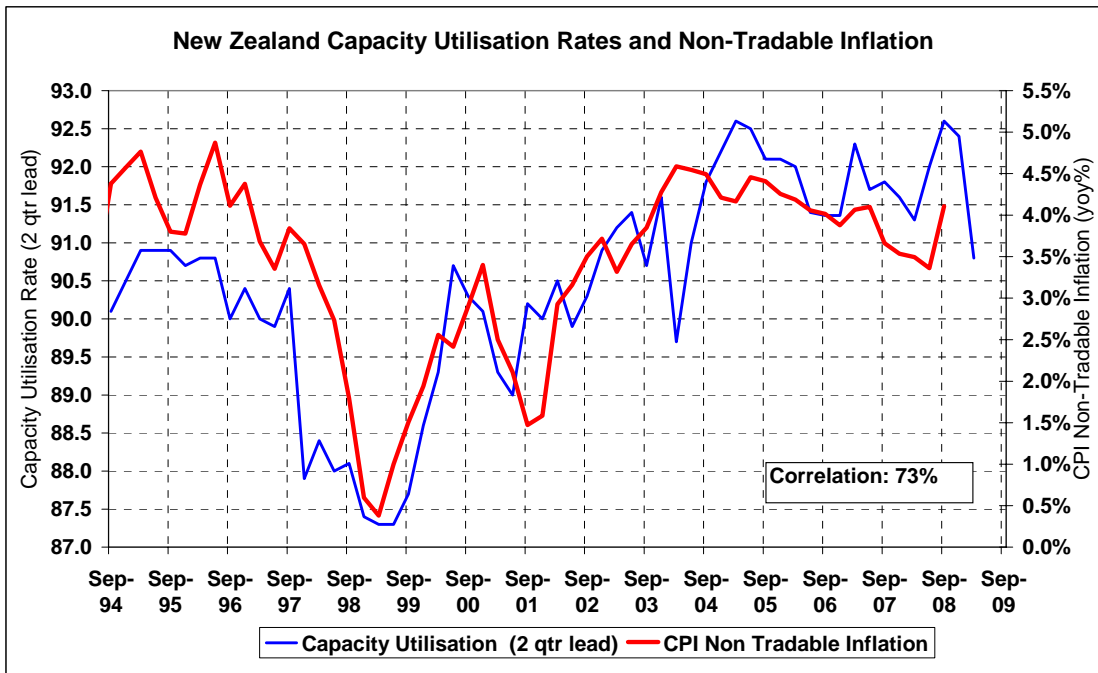


Total

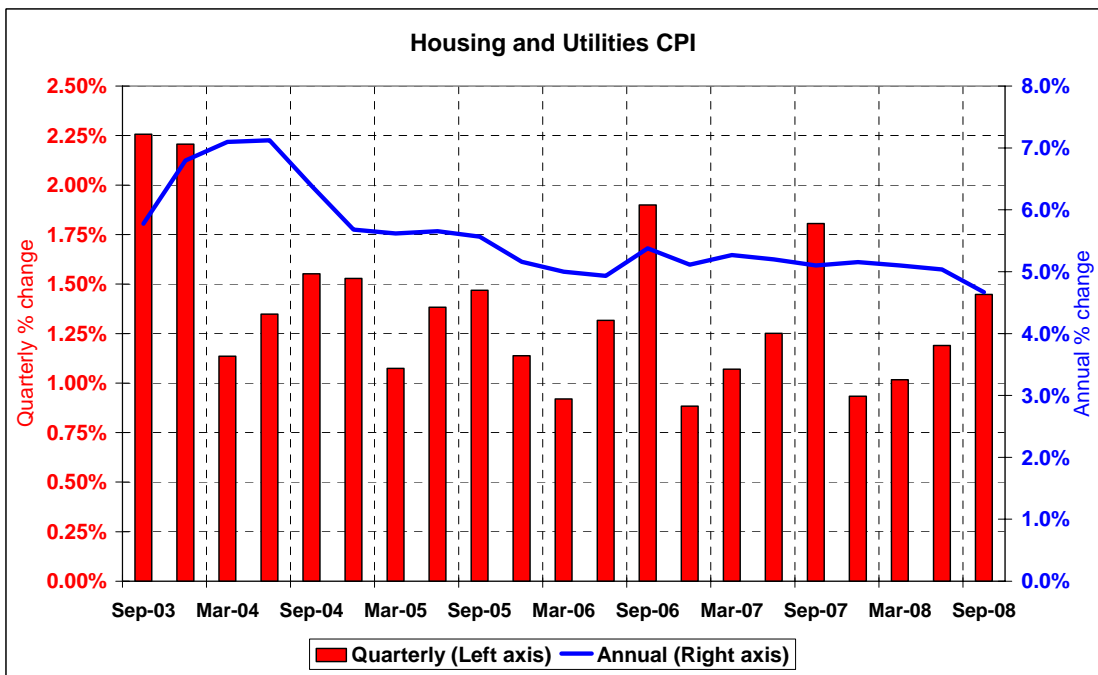


Non-Tradable

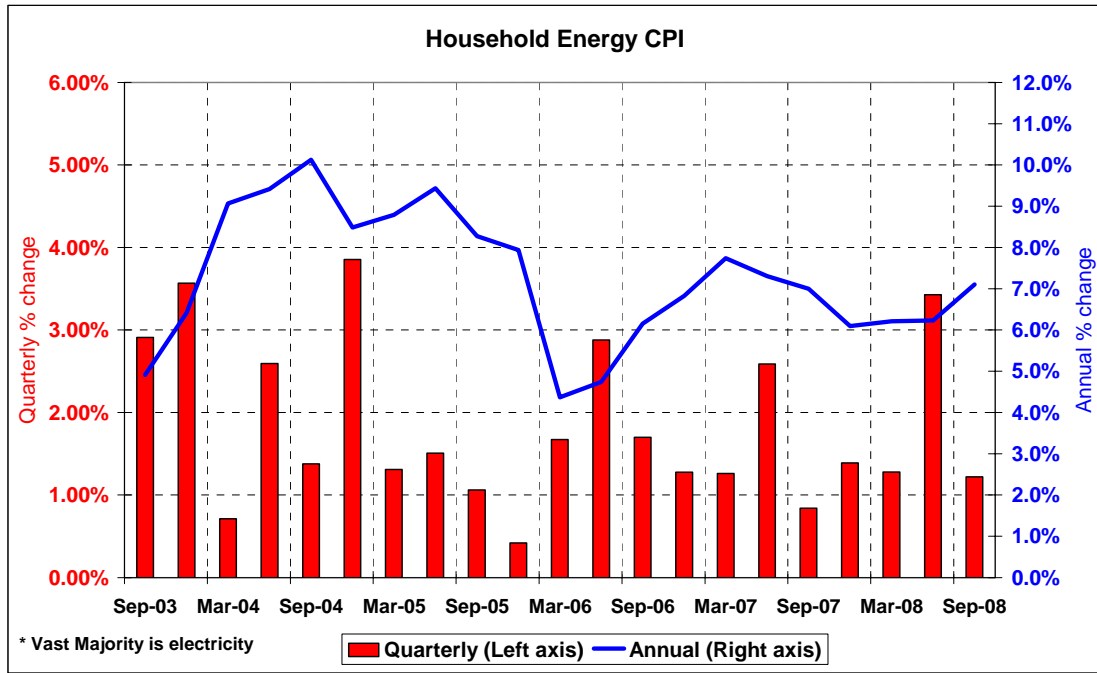




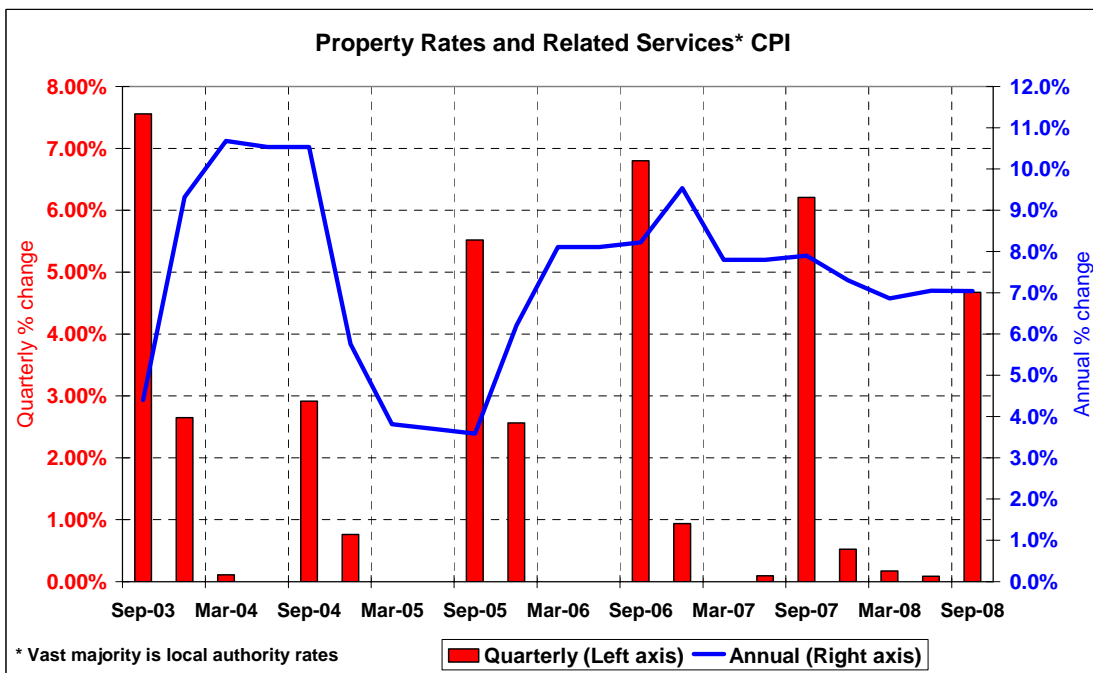
Housing and Utilities



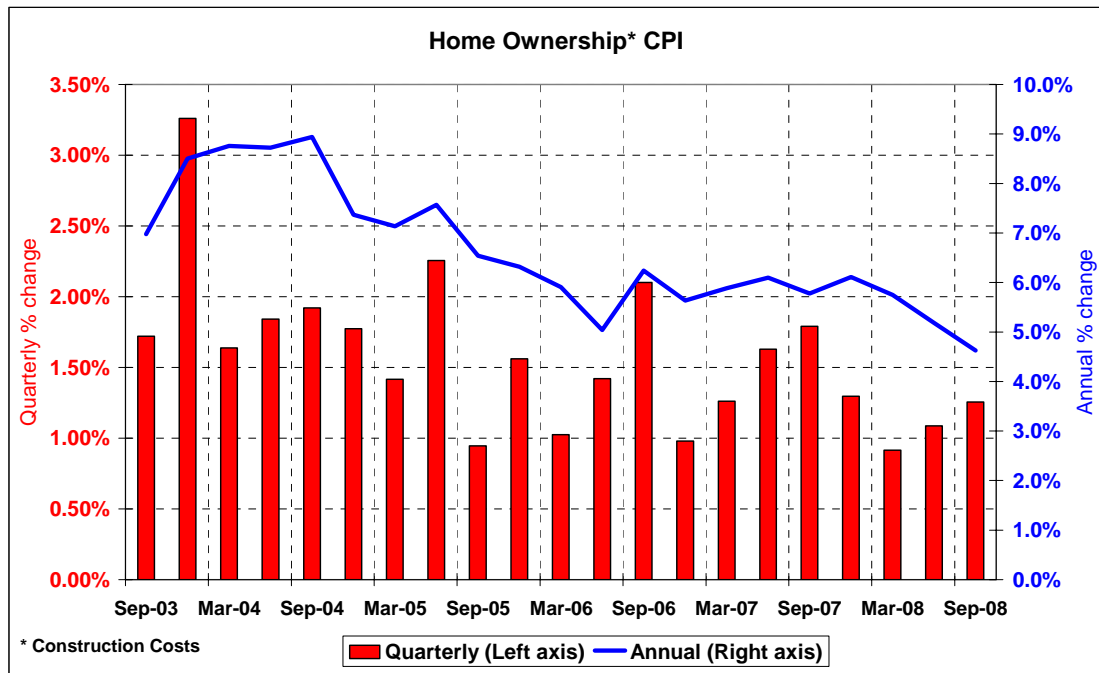
- Household Energy



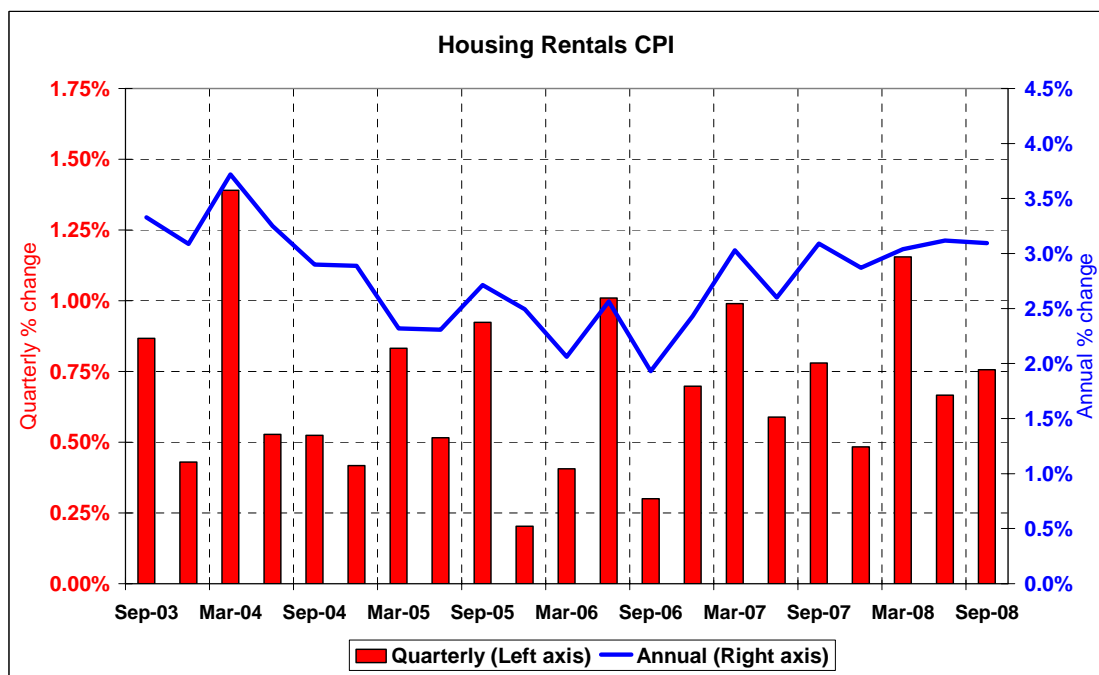
- Property Rates and Related Services



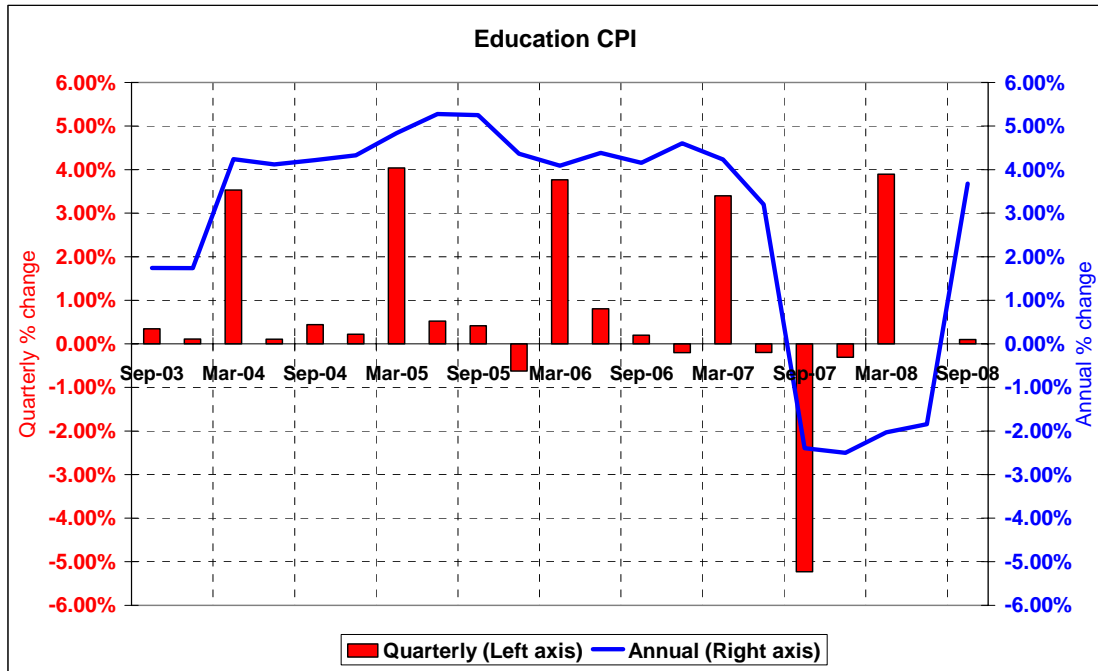
- Home Ownership



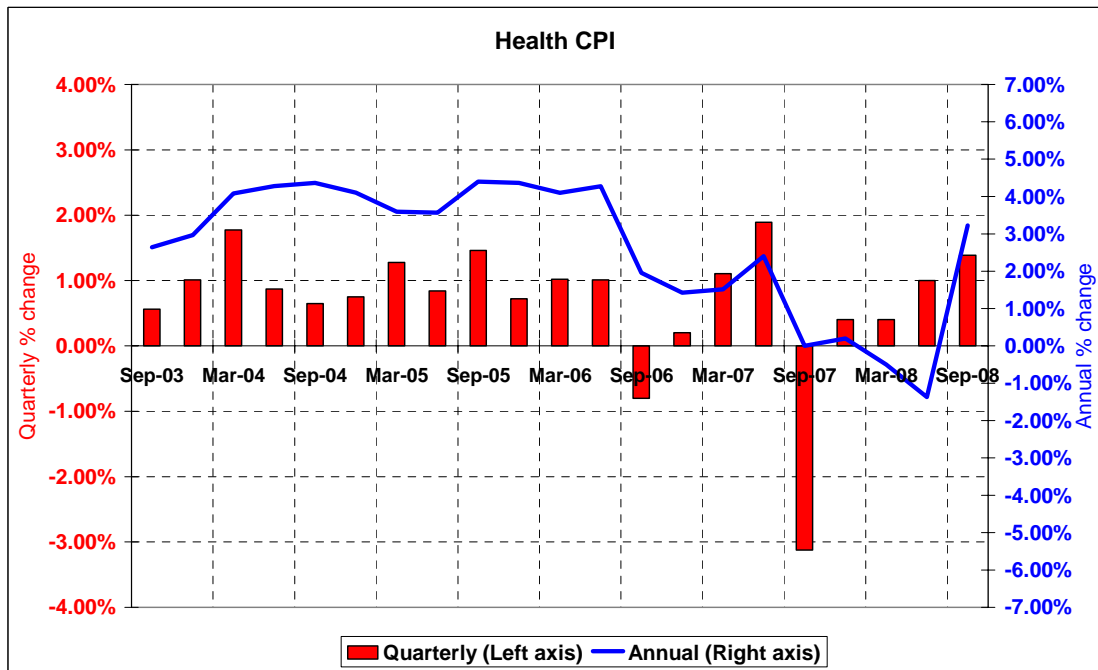
- Housing Rentals



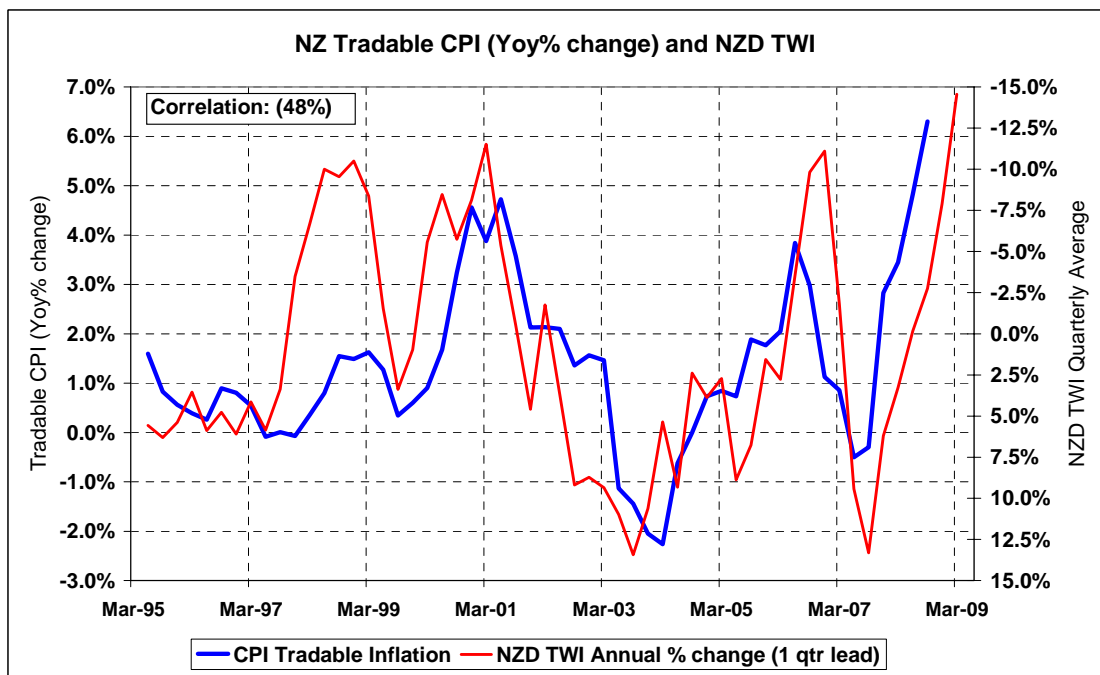
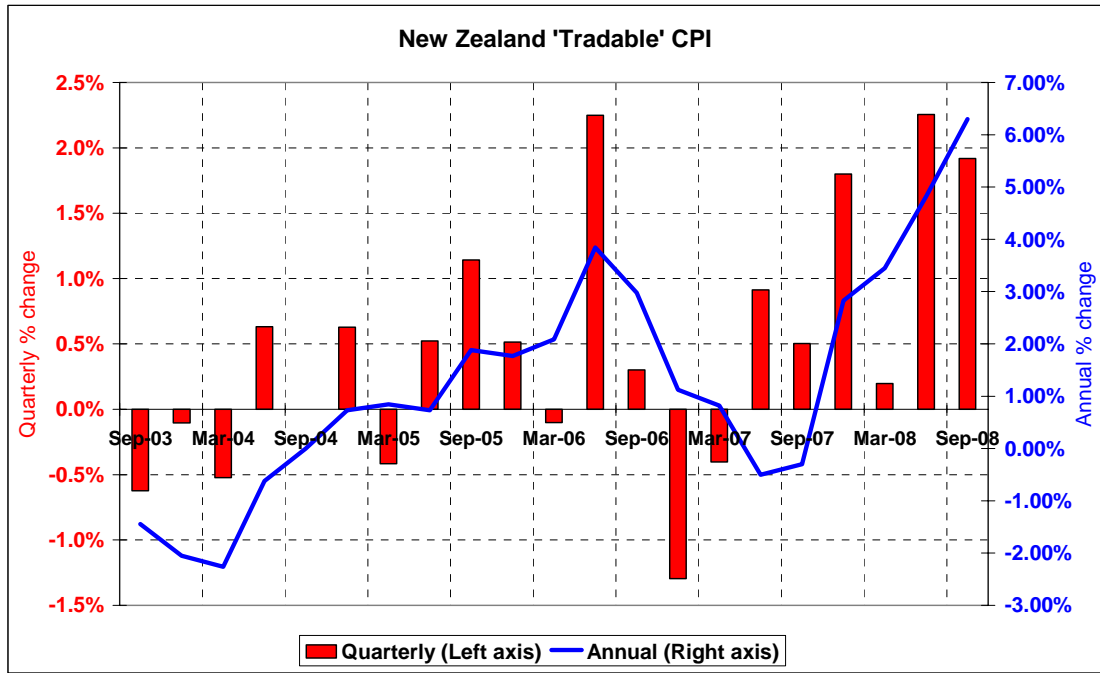
Education



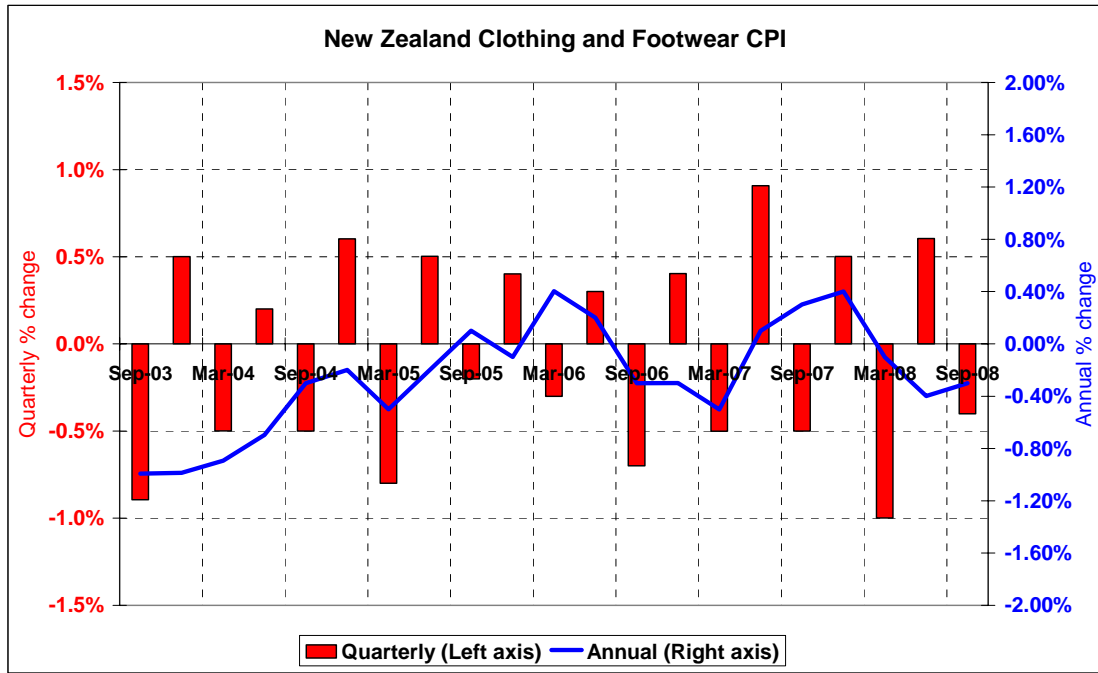
Health



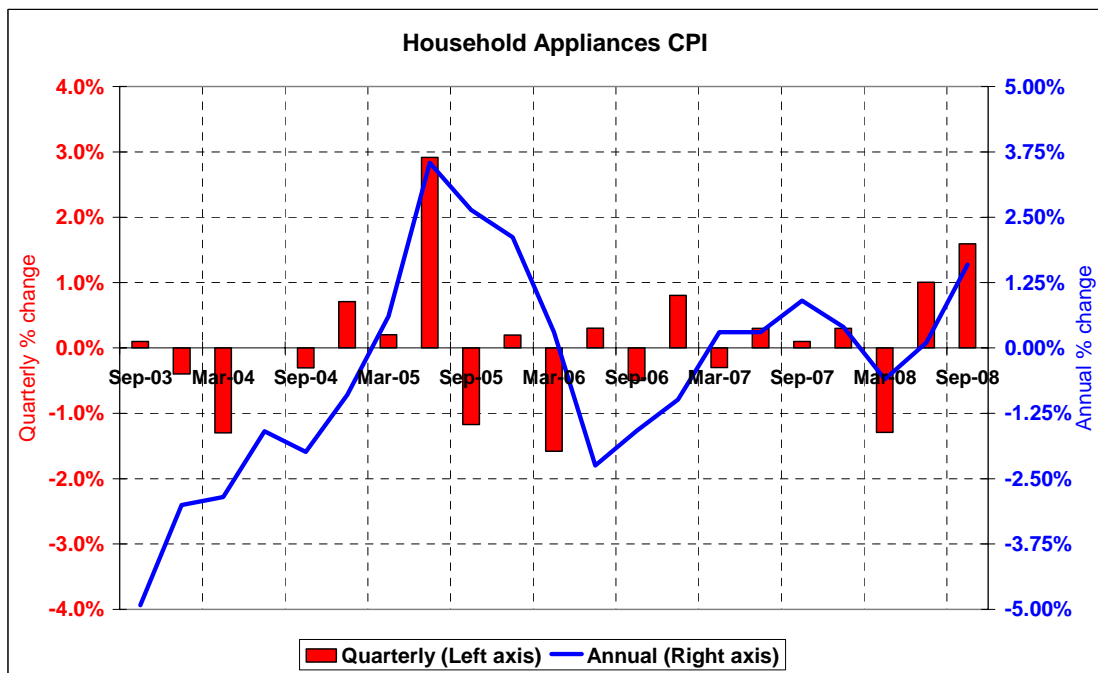
Tradable



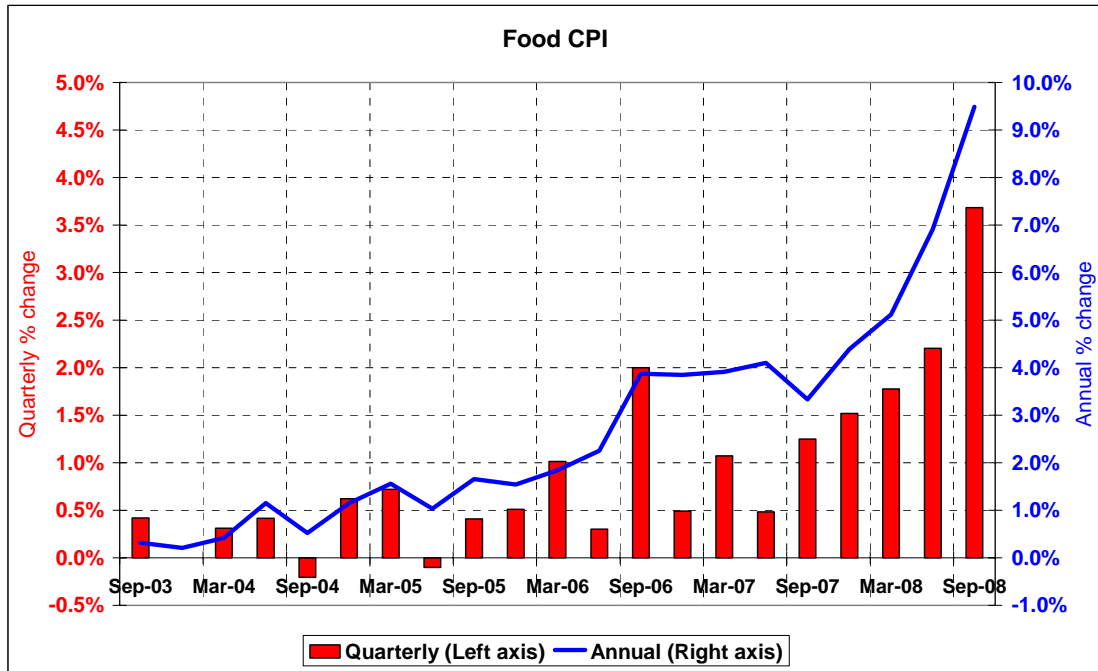
Clothing and Footwear



Household Appliances

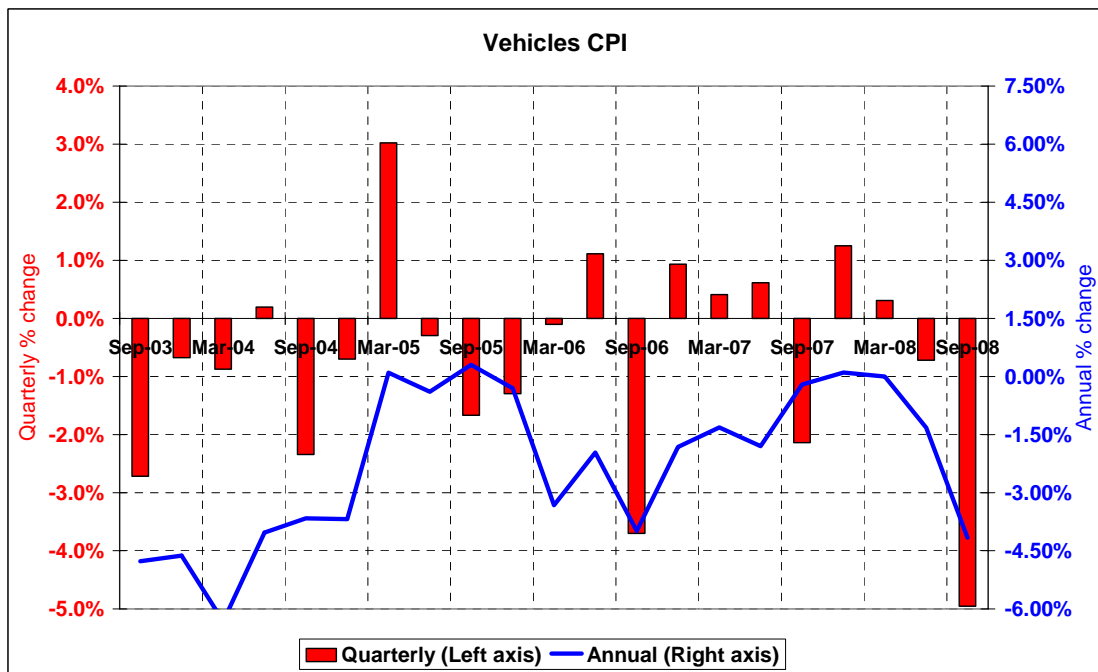


Food

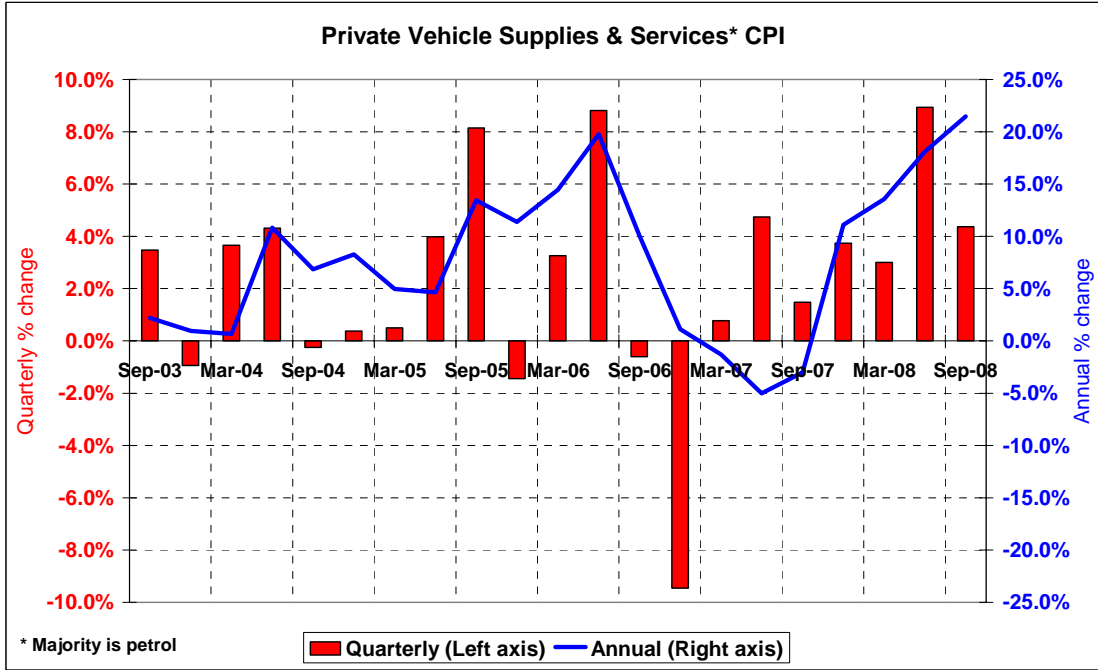


Transport

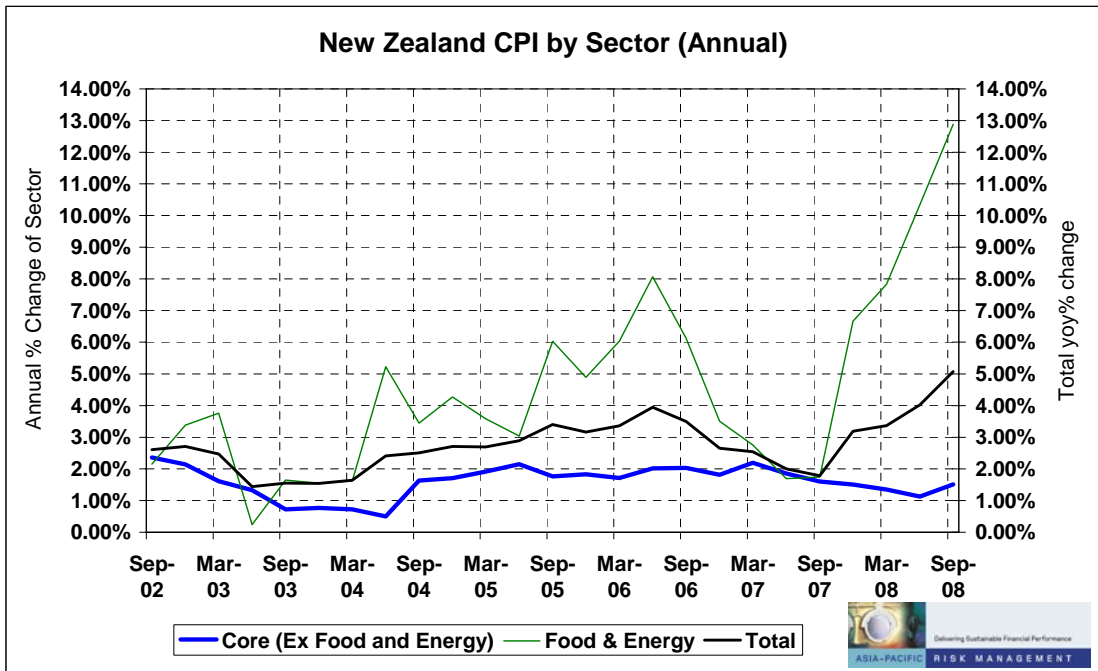
- Purchase of vehicles

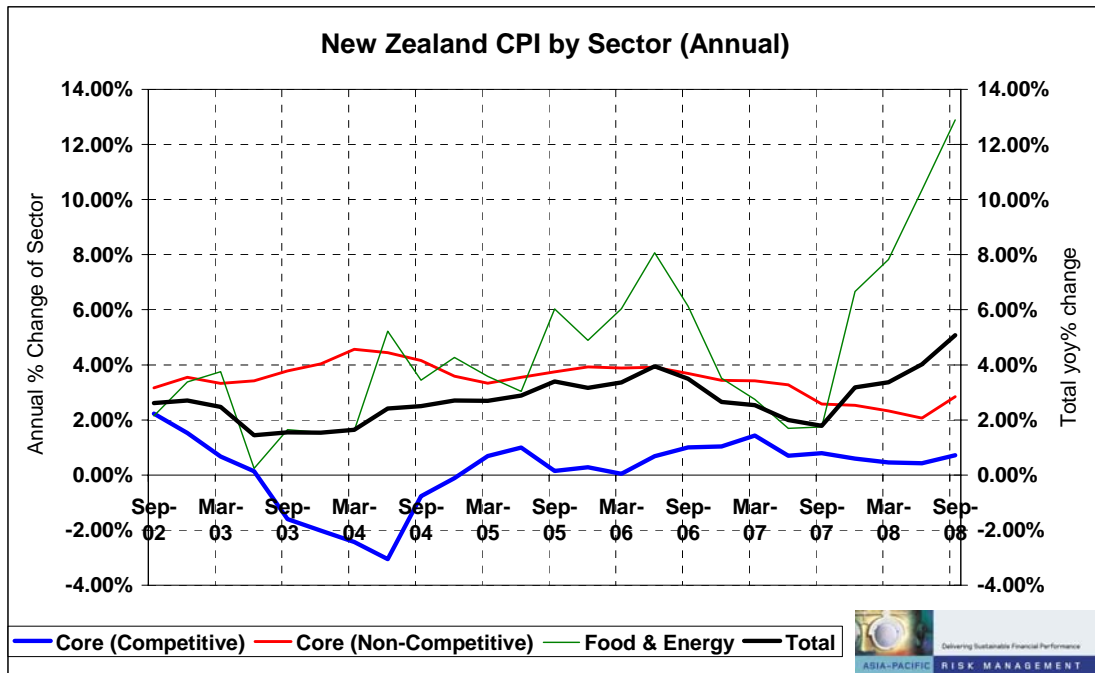


- Private transport supplies and petrol



Summary

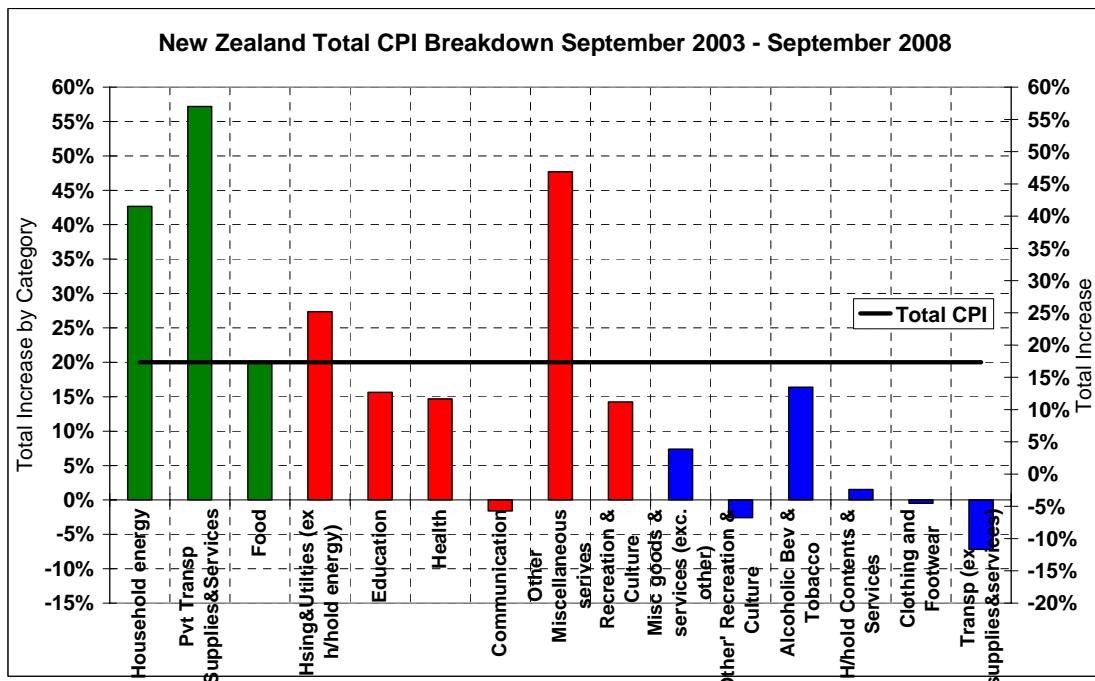




“Food and Energy Sectors” (food, electricity and petrol) consists of Food (economy wide weighting of 17.5%), Household Electricity and Energy (3.8%) and Private Transport Supplies and Services (9.3%). Total “Food and Energy Sectors” weighting of 30.5%.

“Core Competitive Sectors” consists of Alcohol and Beverages (7.2%), Clothing and Footwear (4.8%), Household Contents and Services (5.5%) and Transport excluding private supplies and services, 8.0%. Total “Core Competitive Sectors” weighting of 25.4%

“Core Non-Competitive Sectors” consists of Housing and Utilities excluding household electricity and energy (16.2%), Recreation & Culture (10.2%), Education (2.1%), Health (5.2%), Miscellaneous Goods & Services (7.1%) and Communication (3.3%). Total “Non-Competitive Sector” weighting of 44.1%.



Green code = Food and Energy

Red code = Non-Competitive Sector

Blue code = Competitive Sector

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