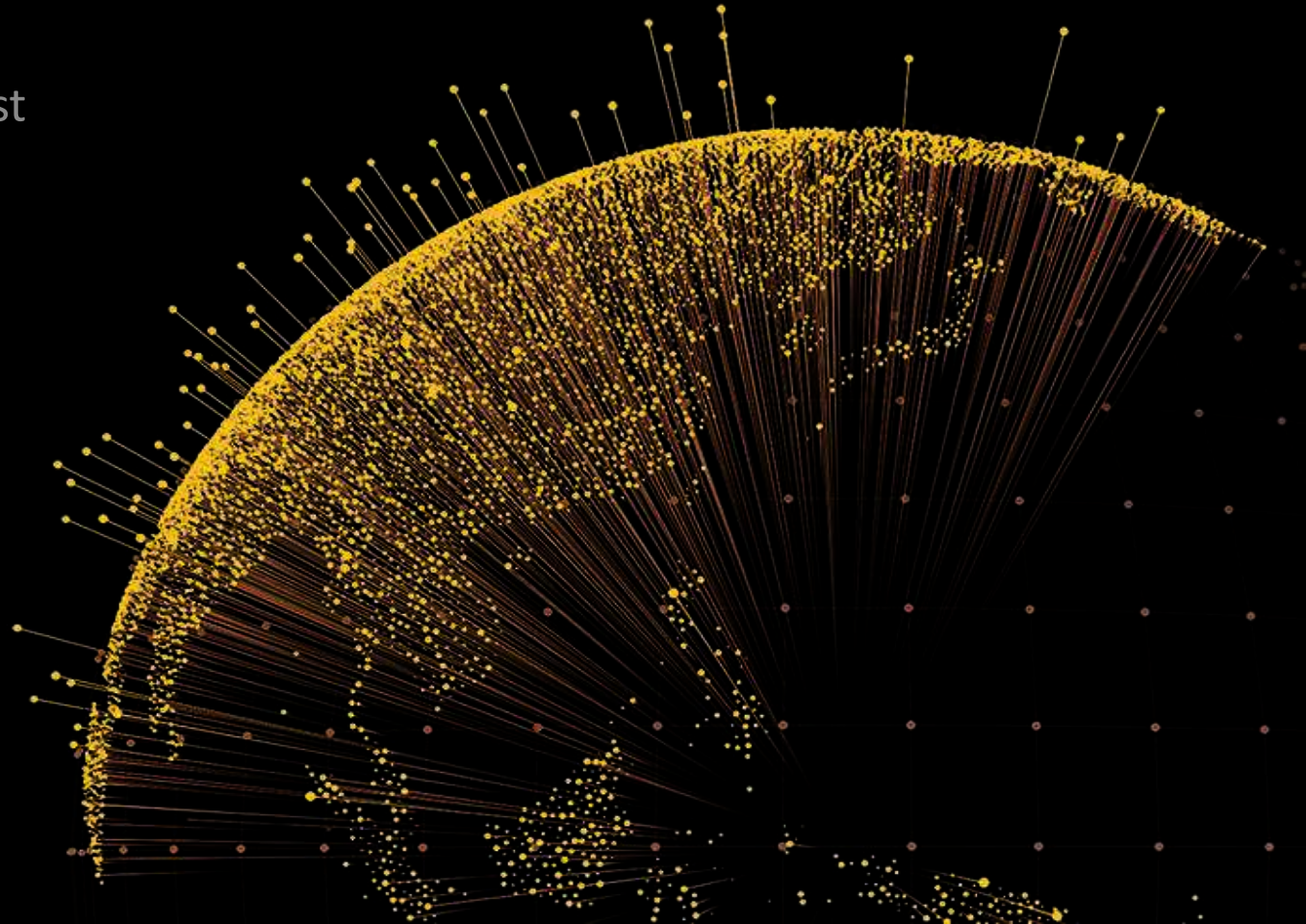


Land of Milk and Honey

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March 2015



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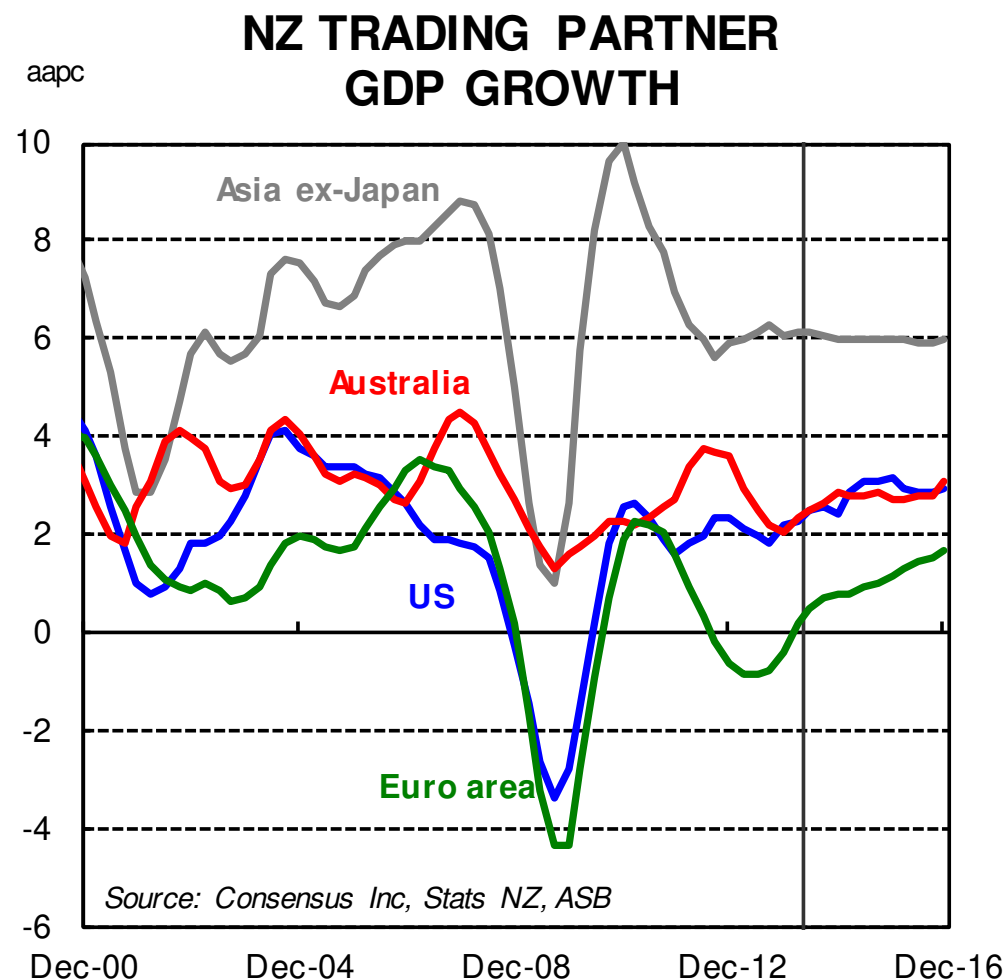
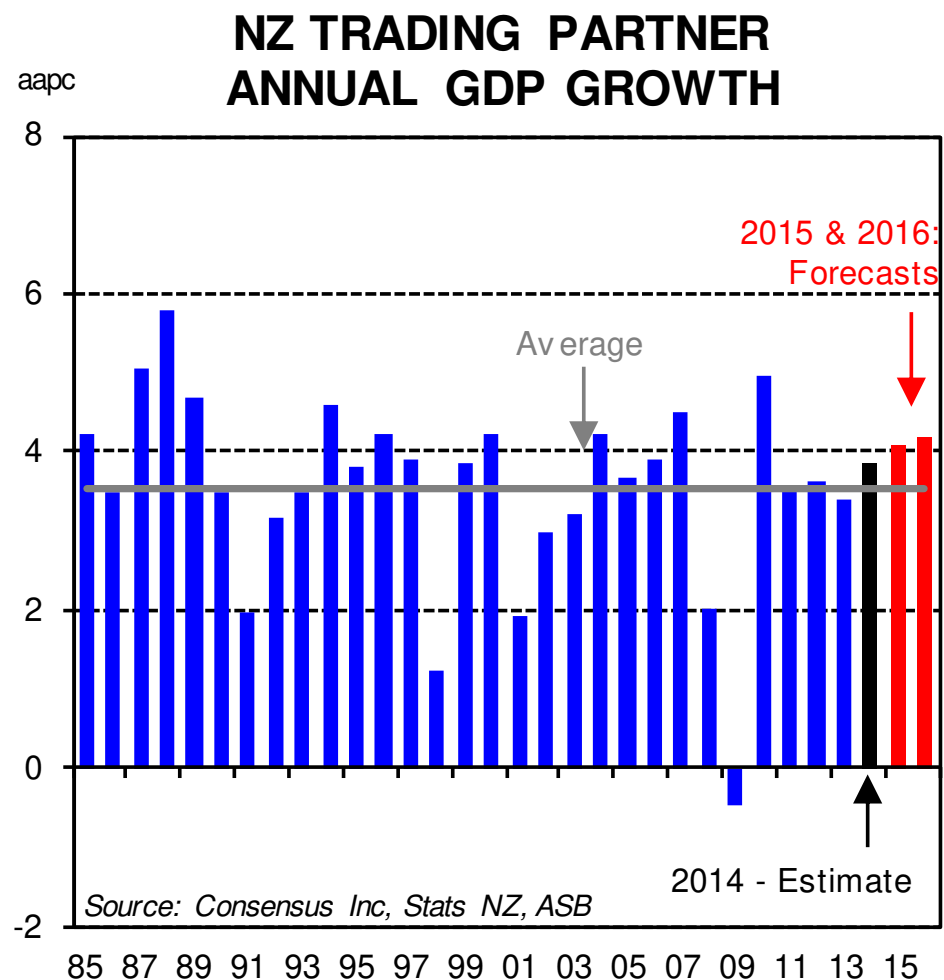
Topics

- Uneven global recovery.
- NZ economic outlook solid.
- Inflation missing in action.
- OCR outlook: up or down?
- NZD firm, some moderation.

The global picture



Trading partner growth: reasonable but risky

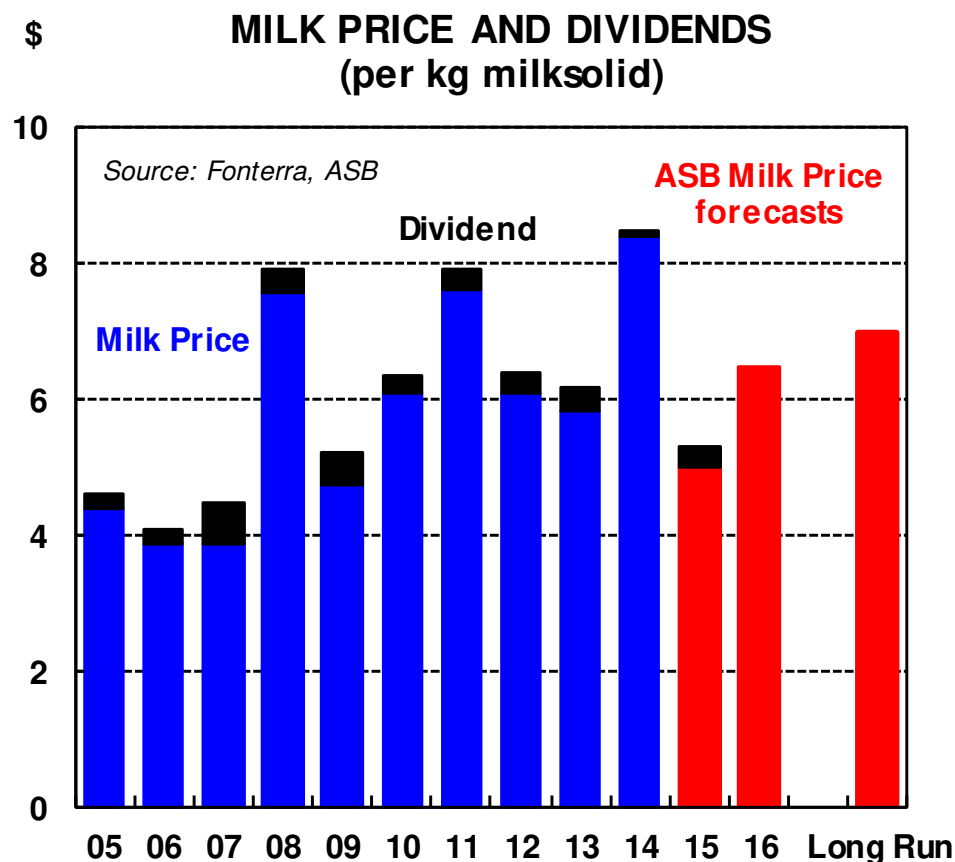


Eurozone risks: weak growth and very low core inflation; Greek brinkmanship
China risks: Not clear China's deceleration has finished; NZ has a high exposure

NZ economy

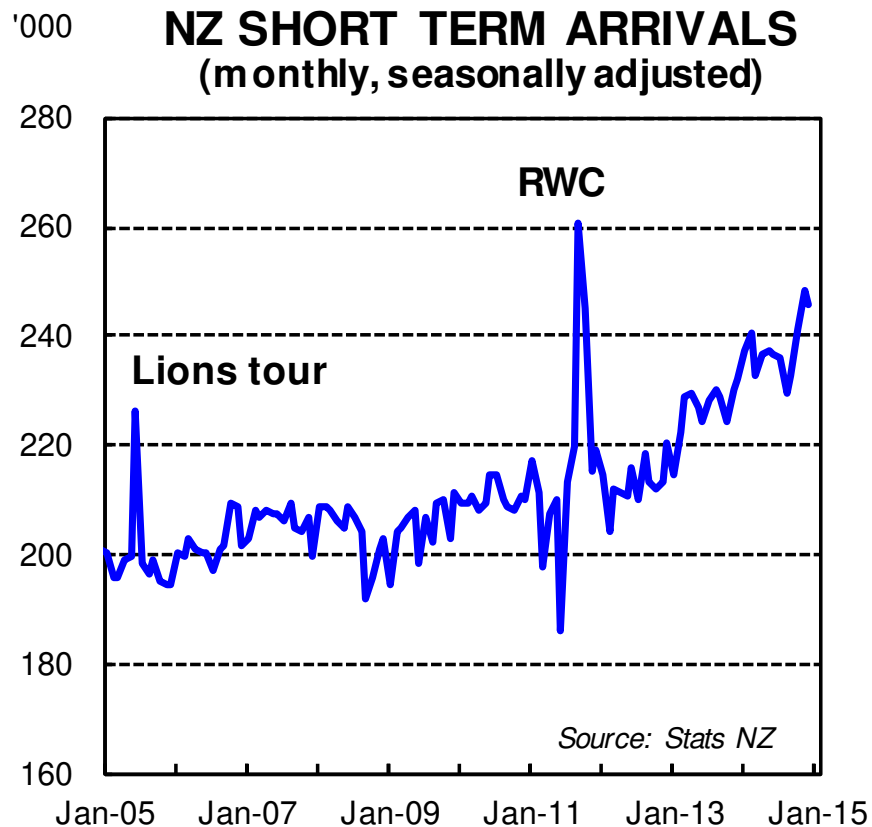


Tough dairy season, but outlook improved



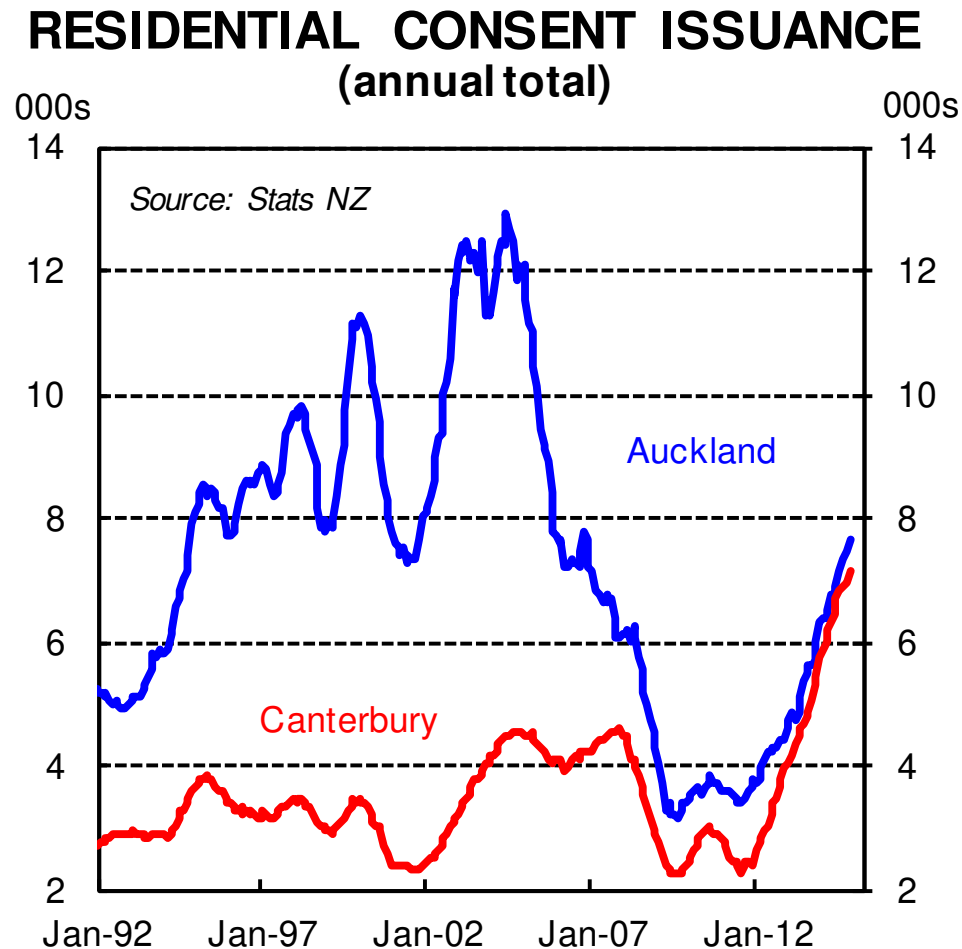
- Weaker global dairy prices to hit rural incomes this year.
- Strong NZ dairy production growth partly to blame.
- Dry conditions amplify farmer response to weaker dairy prices. Production to contract sharply over H1 2015.
- Follows on from strong season in the prior year.
- Poisoning threat: NZ's food reputation.

Tourism picking up



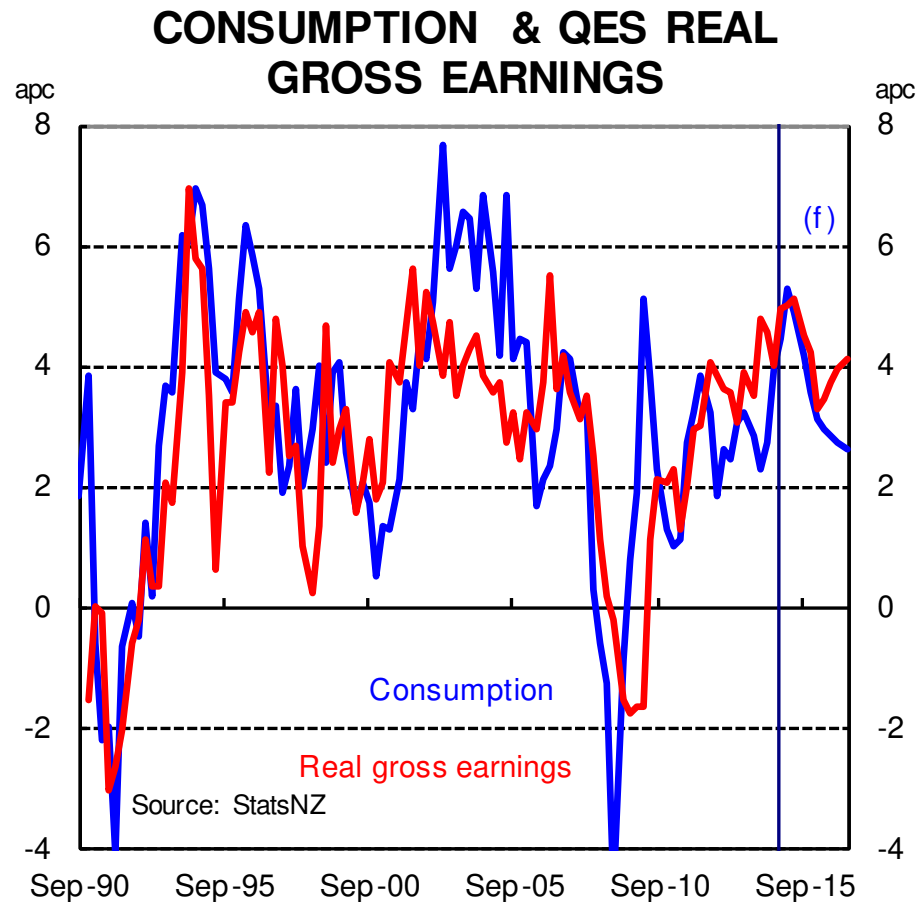
- Tourist numbers have picked up steadily over recent years.
- Led by strong growth in Chinese arrivals – product opportunity.
- Lift in US arrivals encouraging.
- Improving global economy will lift demand for travel.

Construction: just getting started



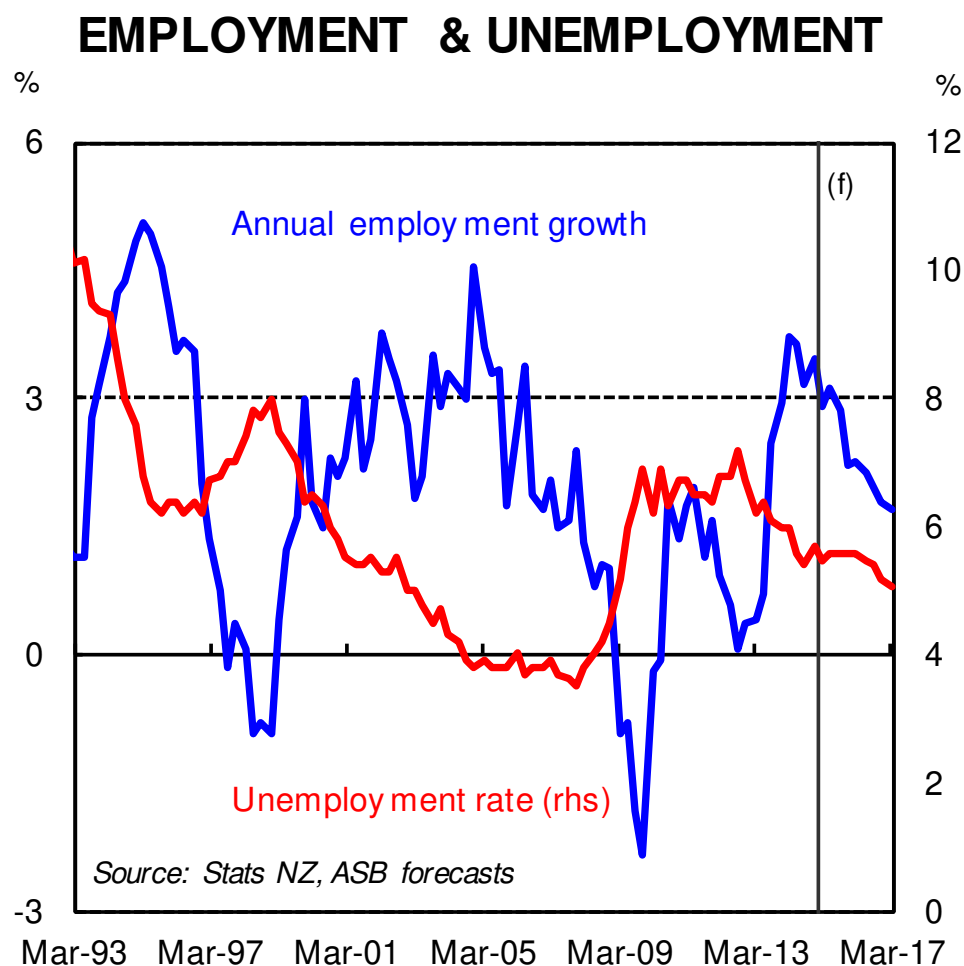
- Construction activity lifting strongly, largely led by Canterbury and Auckland housing demand.
- Auckland construction has lifted but pace still undershoots requirements.
- Canterbury rebuild: Only a fraction of the work completed.

Consumers crying “Don’t stop me now!”



- Consumer spending growth a key area of strength.
- Confidence strong on labour market, wage growth.
- Oil prices and added boost to disposable income.
- Strong population growth adds to momentum: new migrants need houses, clothes, food – and natural products!

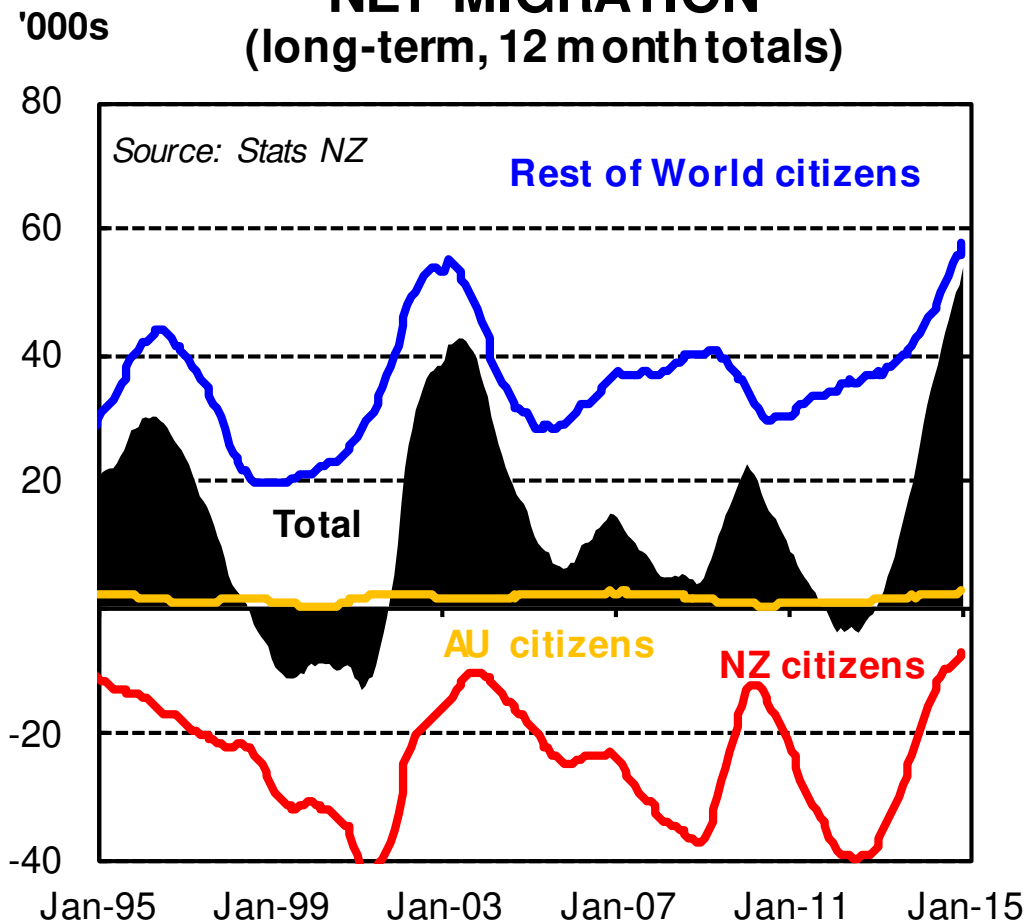
Labour market: strong demand, stronger supply?



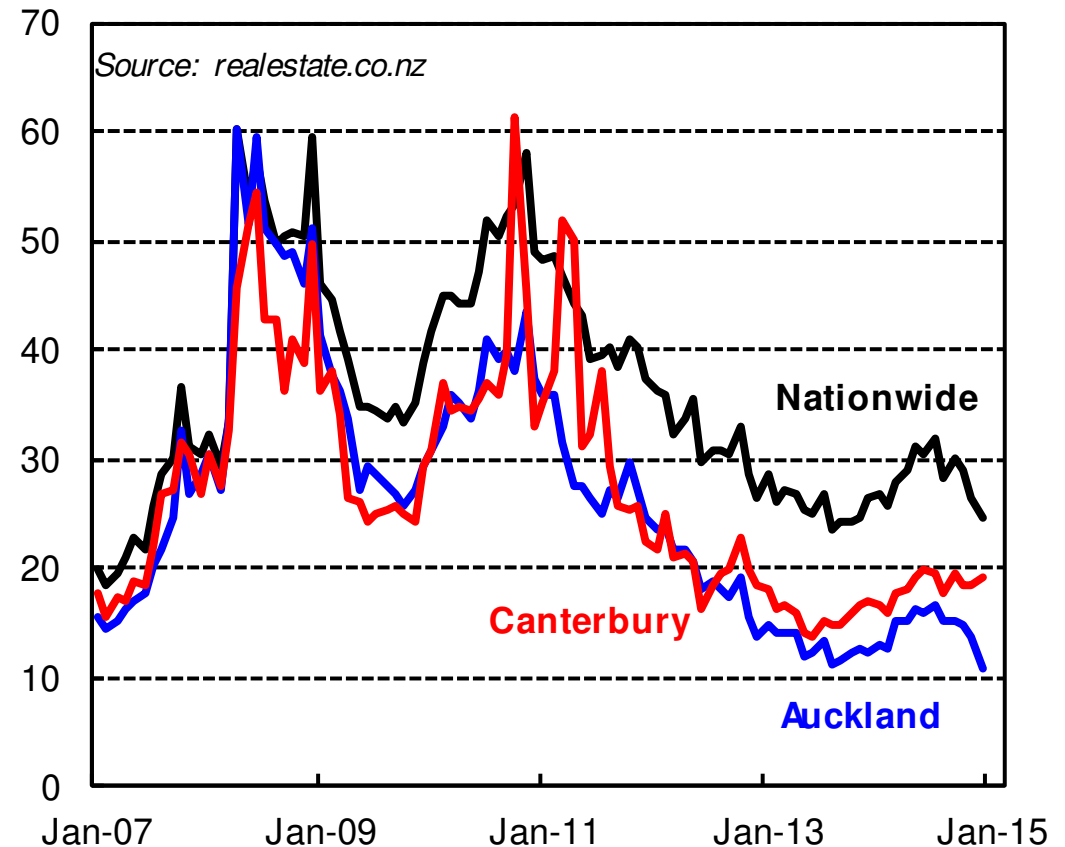
- Employment growth very strong over 2014, broad-based recovery.
- Labour supply has also increased sharply – very motivated migrants.
- The net effect will see the unemployment rate remain steady over 2016.
- Wage growth steady at modest levels.

Housing: demand and supply factors

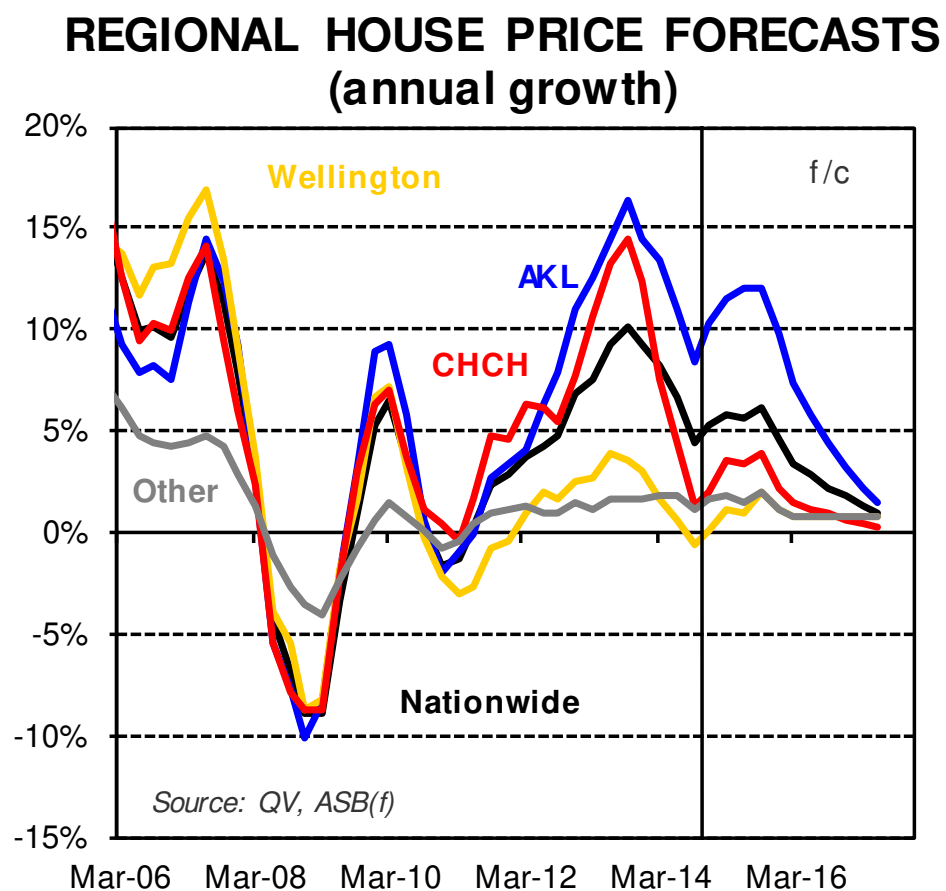
NET MIGRATION
(long-term, 12 month totals)



NUMBER OF WEEKS INVENTORY

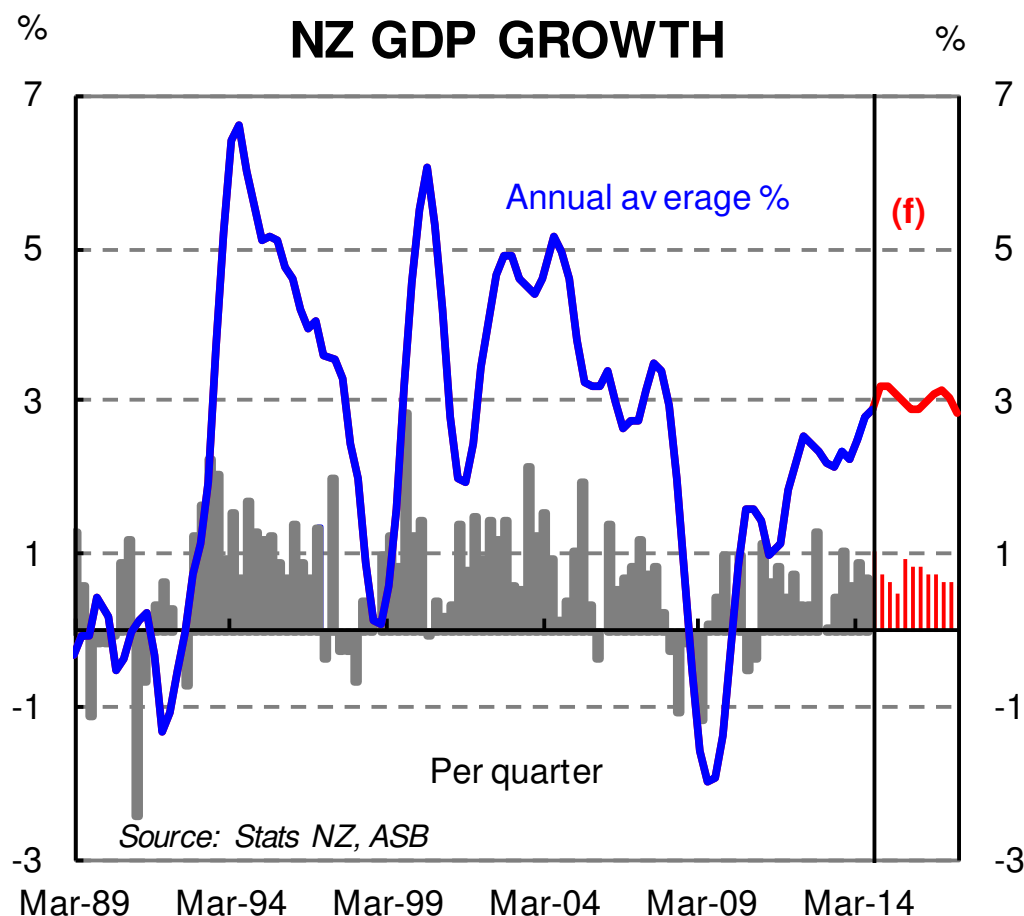


Auckland housing market reanimates



- Auckland housing market still tight, low interest rates add further fuel to the fire.
- Canterbury market starting to find some balance.
- Outside of Auckland and Canterbury, housing market fairly balanced, although low interest rates risk broad-based lift in demand.

2015: NZ set for an encore performance?

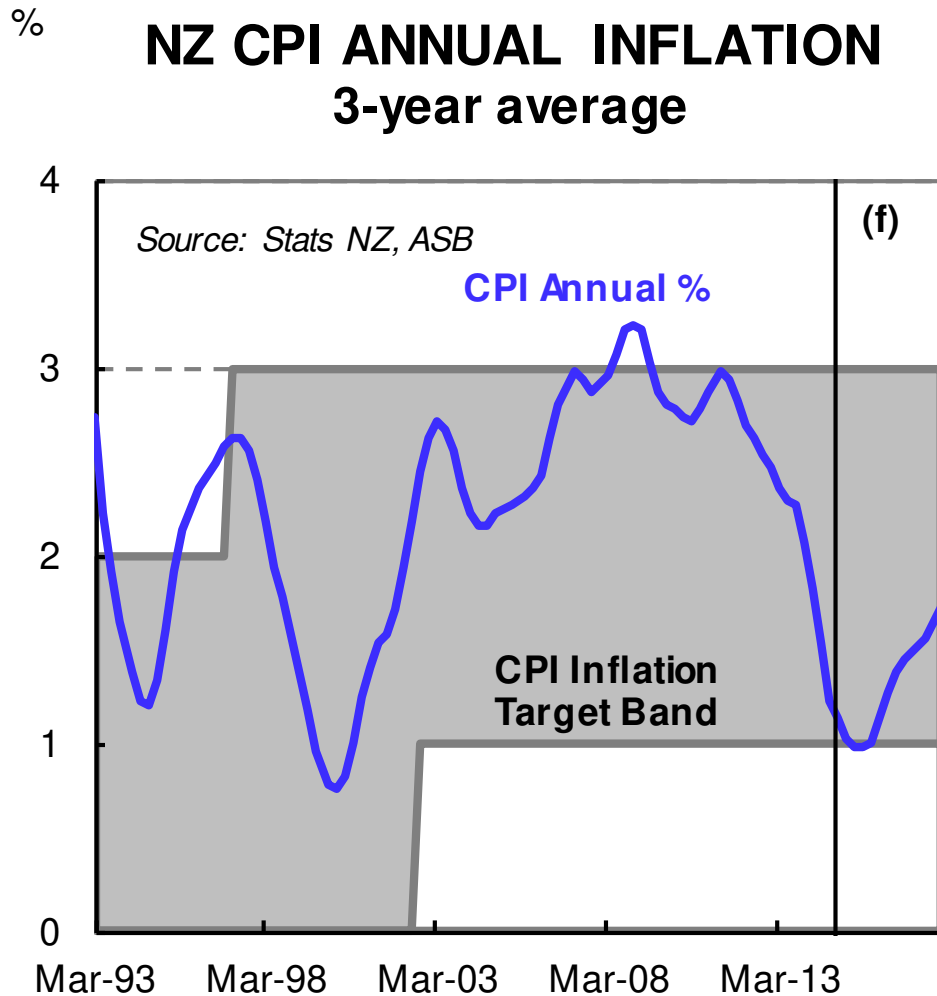


- Solid GDP growth of 3% for 2015.
- Largely led by strong population growth, consumer spending and construction.
- Export outlook for 2015 more mixed and challenging for some areas.
- Fiscal spending remains a drag.

Inflation, interest rates, exchange rates

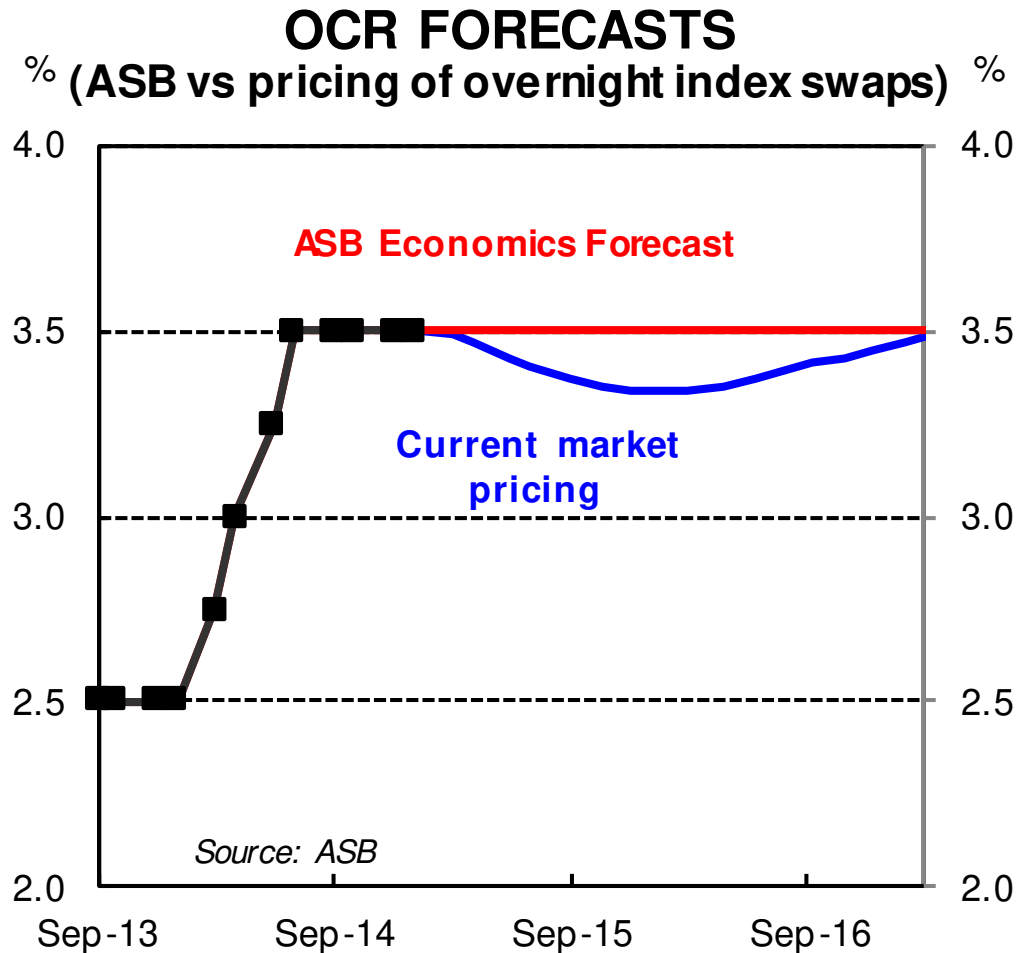


Inflation: feeling low



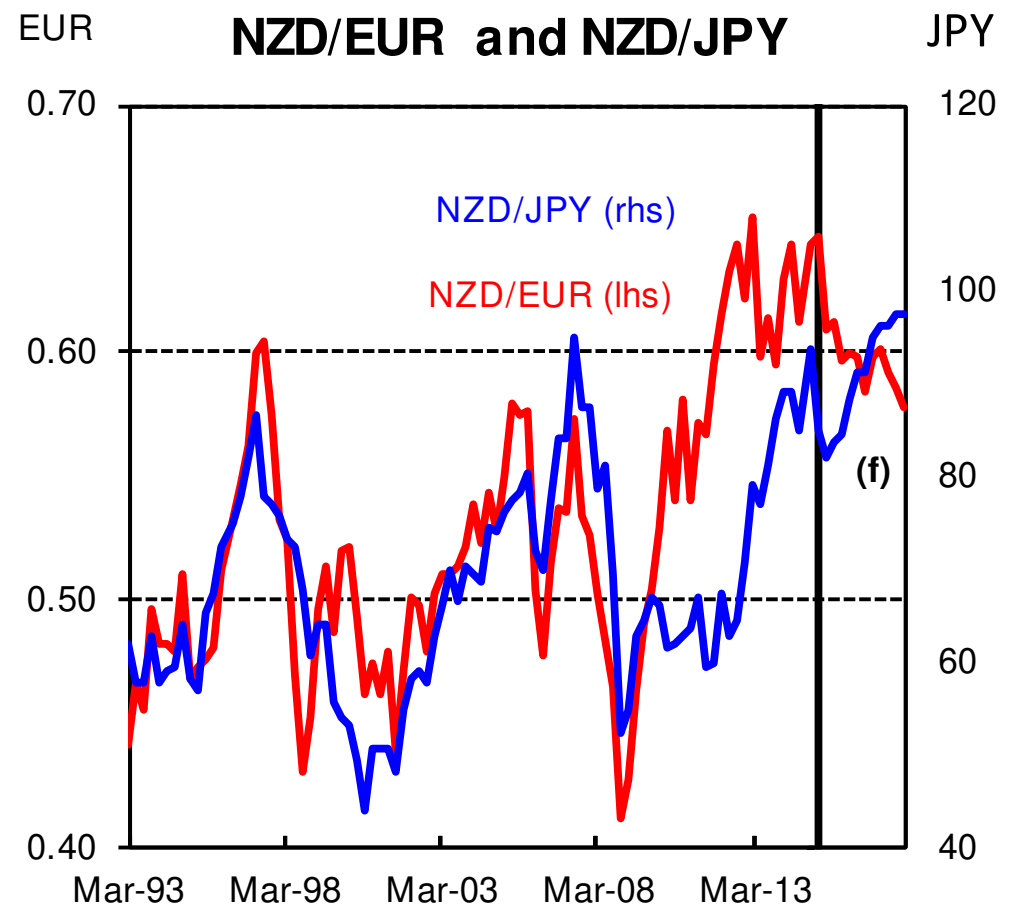
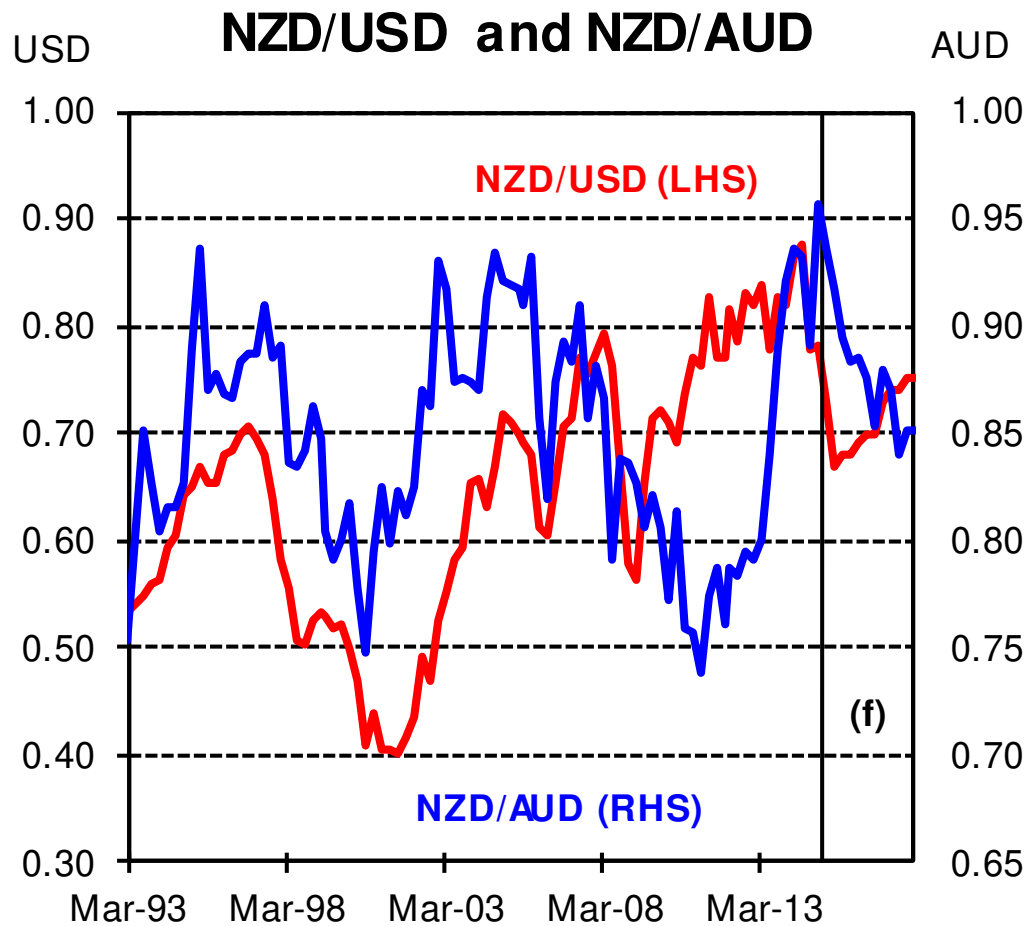
- Inflation remains subdued.
- Domestically-generated inflation pressures have been broadly steady but low.
- High NZD, weak global inflation and falling commodity prices have dragged headline below 1%.
- 3-year average inflation has fallen to the bottom of the RBNZ's target band.

No more hikes in the foreseeable future?



- Headline inflation suggests no rate hikes for the foreseeable future.
- Near-term risk of a rate cut (~25%) given low tolerance for weaker inflation.
- But beyond 2016, risk that rates will eventually need to go higher. Not yet at neutral.

NZD outlook



Summary

- Global growth to remain average, but uneven. Chinese tourists.
- Lower oil prices a net positive for NZ.
- NZ economy is set to record near 3% growth over 2015.
- Growth led by consumer spending and construction.
- Challenging dairy season a setback for rural incomes.
- OCR now on hold for the 'foreseeable future'. Risks to the outlook down in the near term.
- NZD may ease from current levels, but remain elevated by historical standards.