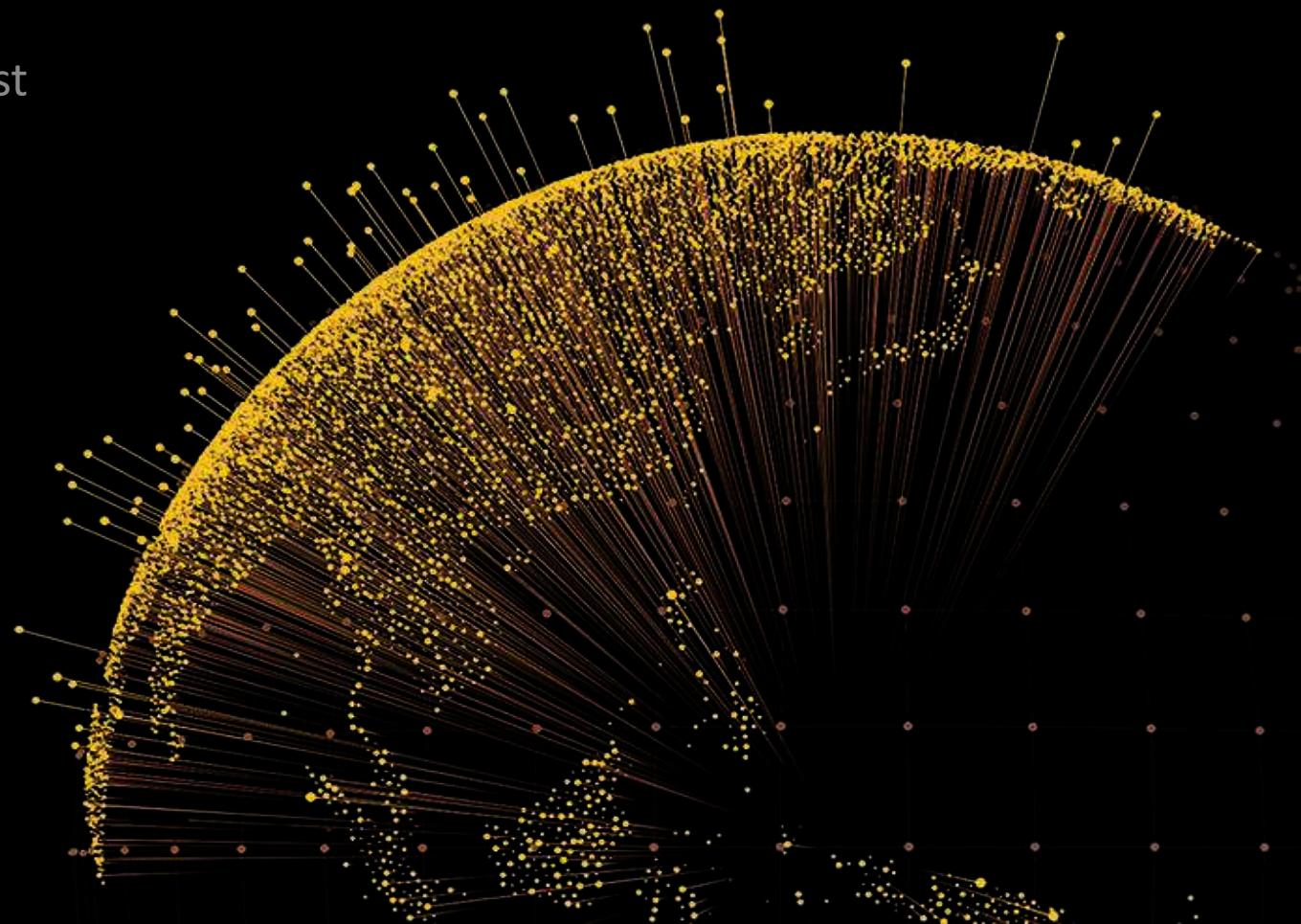


Growth salve

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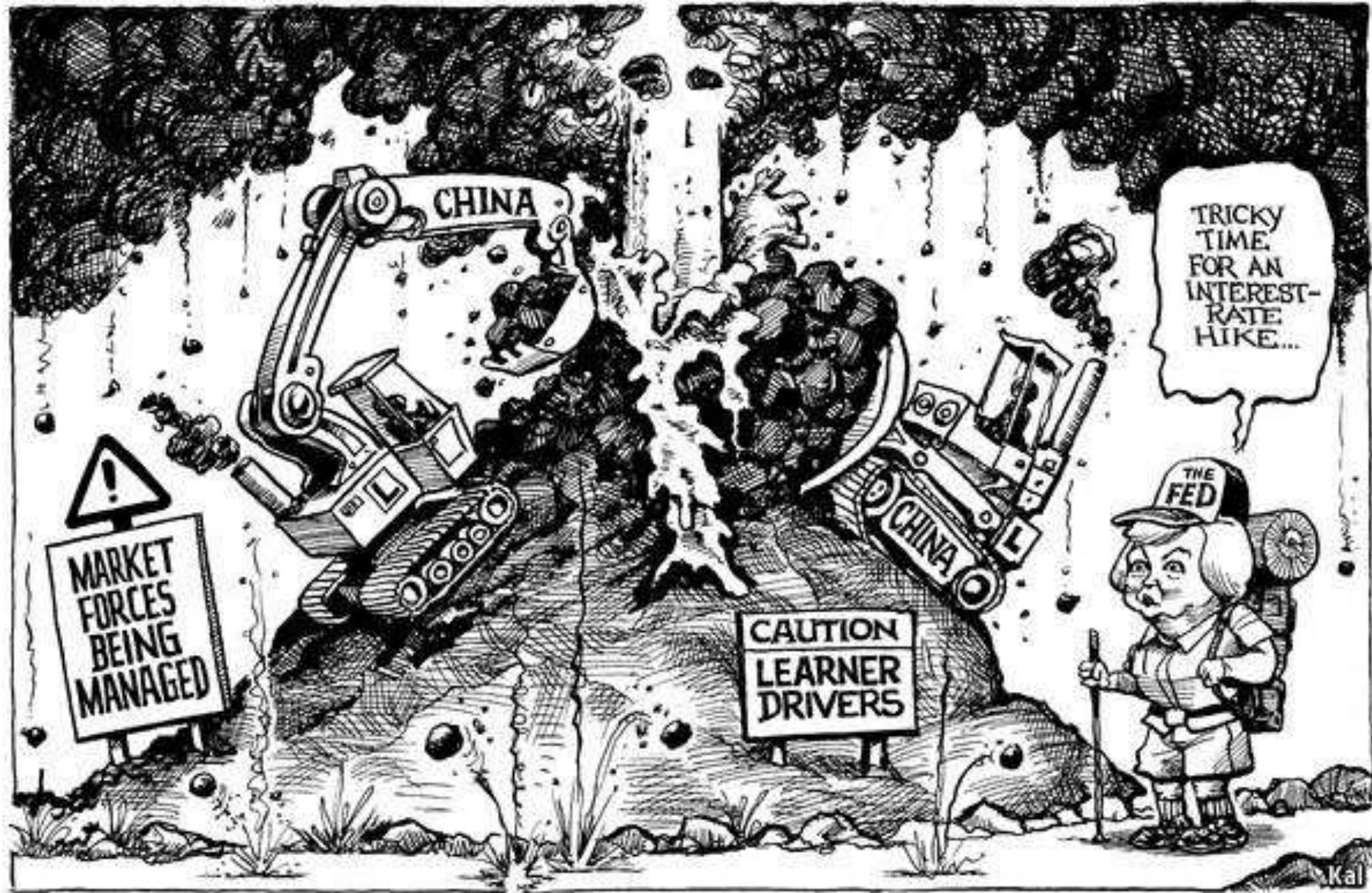
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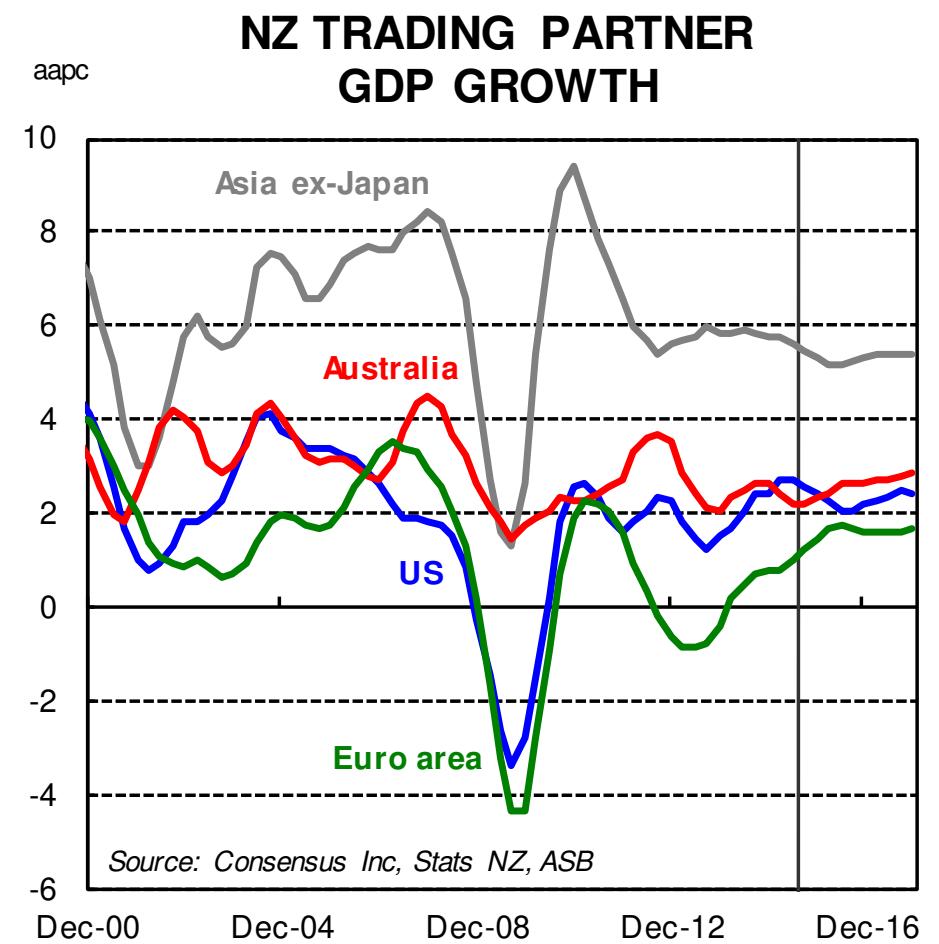
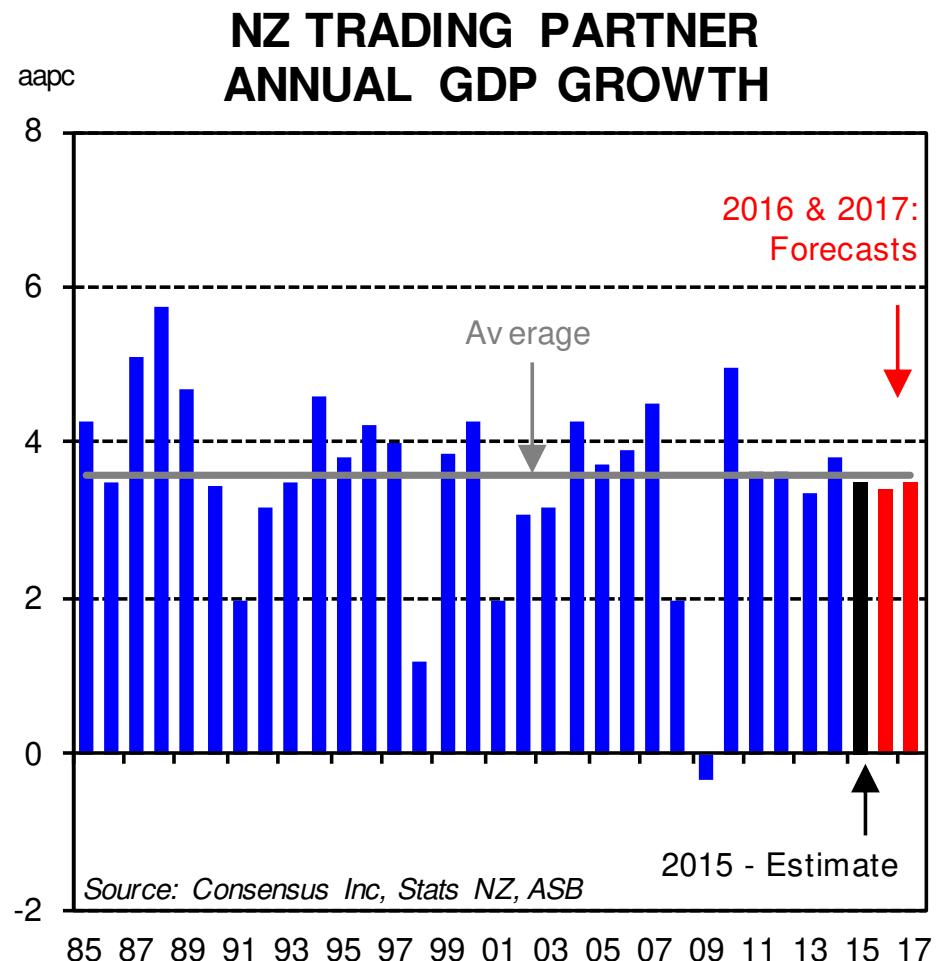
Topics

- Global outlook, key export sectors
- NZ economic growth overview
- Inflation, interest rates and NZD

Global picture



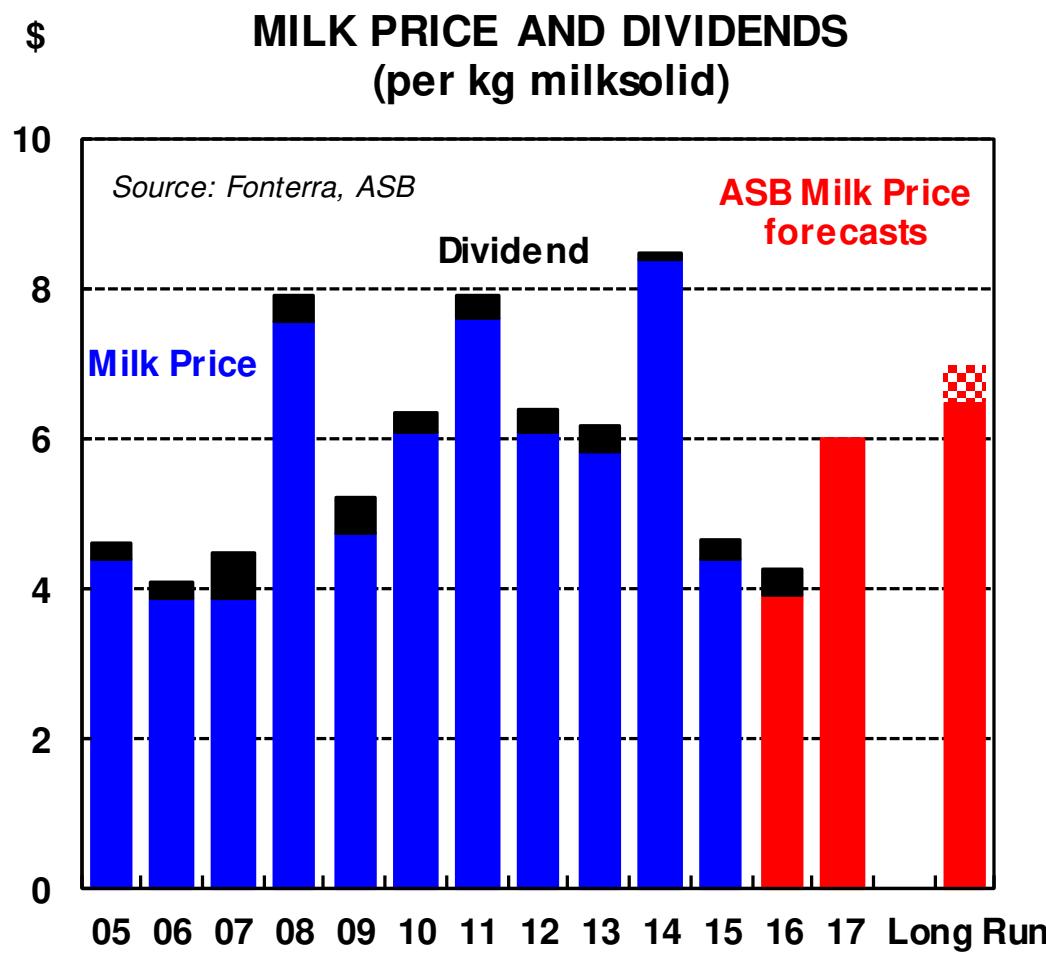
Broad global outlook



China: trend slowing of growth

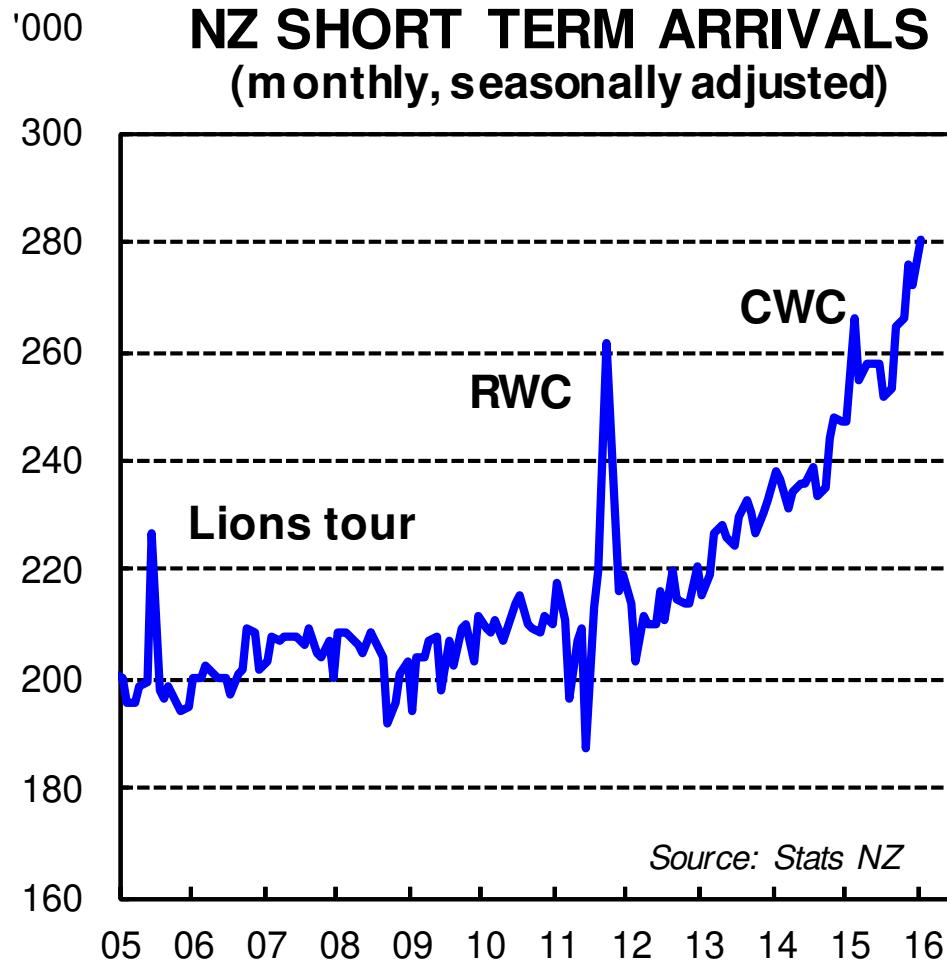


Milk price forecast



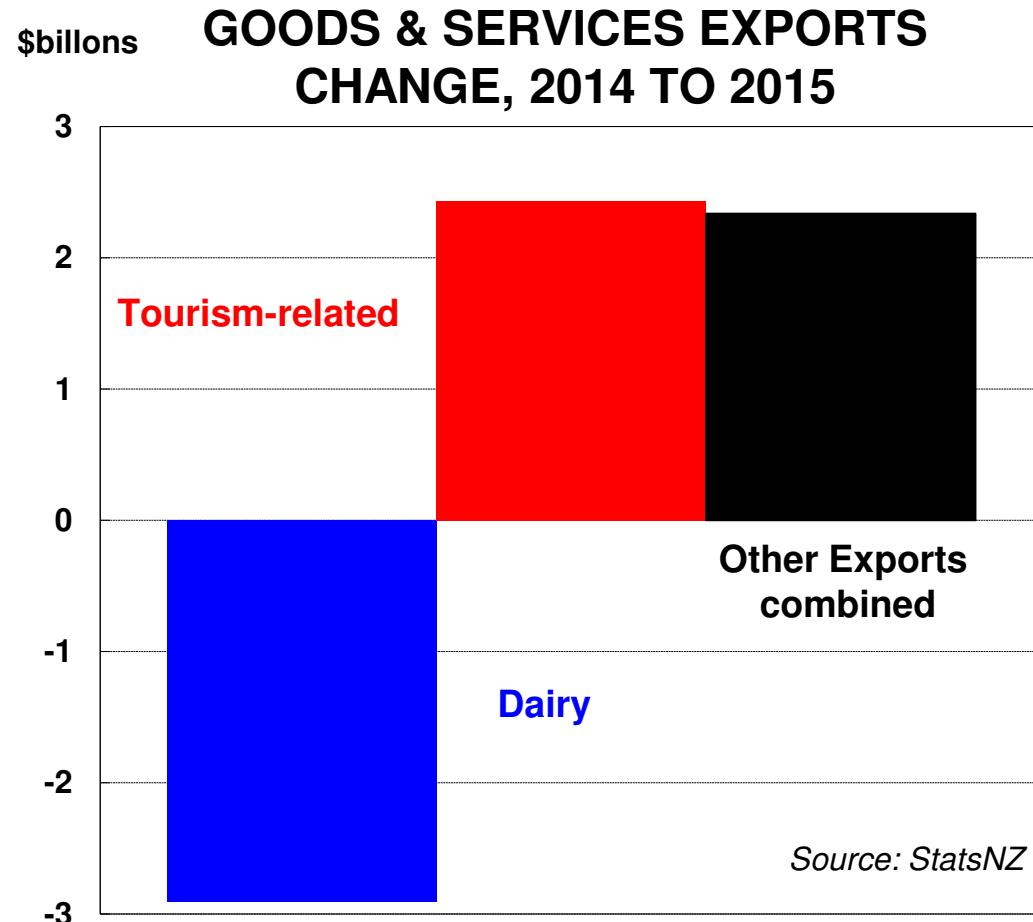
- Expect \$3.90/kg for the season. Still contingent on further USD price lifts over the season.
- Next season approx. \$6/kg
 - NZD rate better
 - But contingent also on firmer USD prices

Tourism booming



- Spending (yoY) ↑ \$2.3bn (31%)
 - Visitors ↑ 10%
 - Spend per visitor ↑ 19%
- Short-term drivers
 - Lower NZD, fuel prices
 - US growth recovery
 - Airline capacity
 - Hobbiton
- Long-run drivers
 - Chinese middle-class growth
 - Tech e.g. Dreamliners & internet innovation

Non-dairy exports performing well



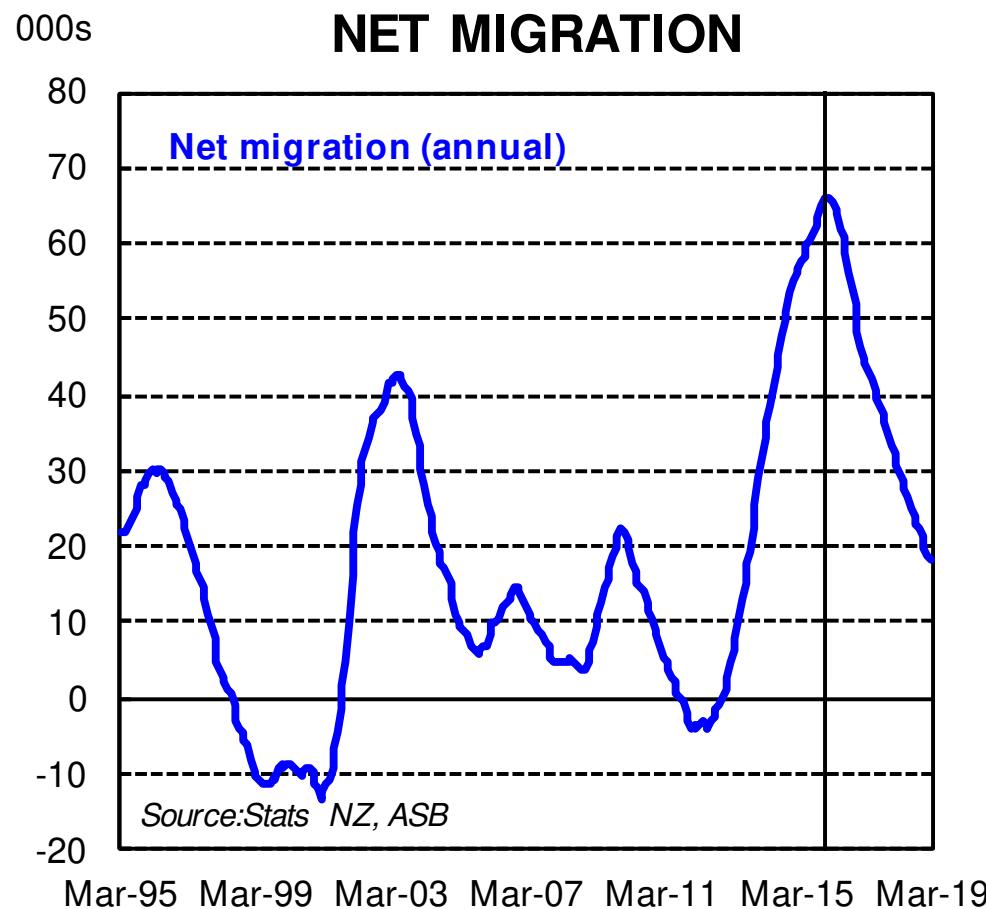
2015 compared to 2014:

- Total export values,
- ↑ \$1.9bn (3%)
- Tourism-related,
- ↑ \$2.4bn (26%)
- Meat (beef), ↑ \$900m (15%)
- Fruit, ↑ \$500m (31%)
- Education, ↑ \$300m (11%)

NZ overview



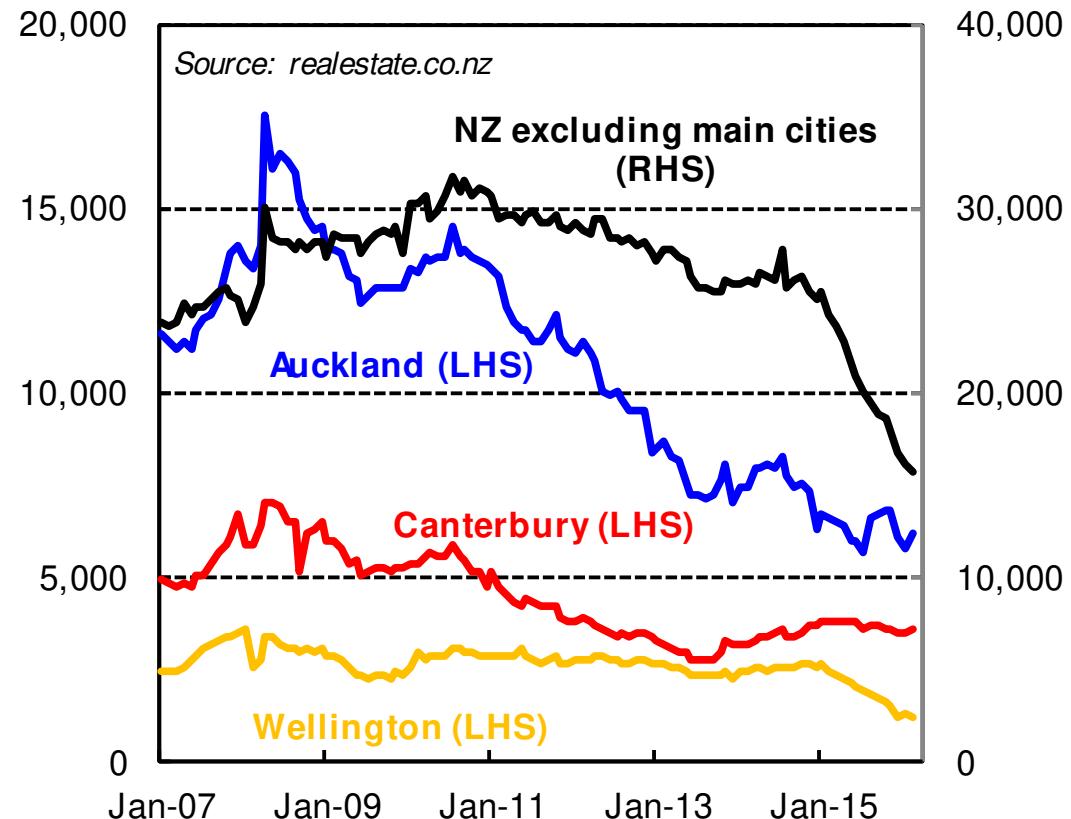
Strong population growth through migration



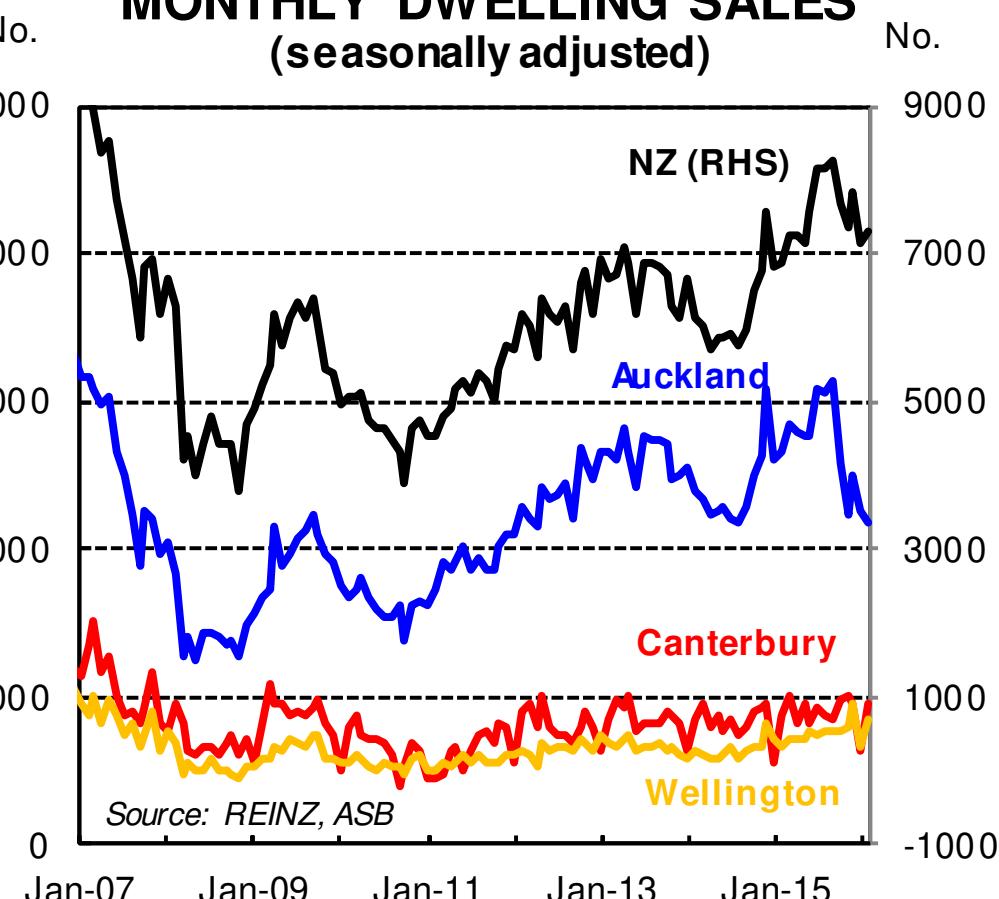
- Net migration at record highs.
- Still falling permanent departures as Australian job opportunities muted.
- Increased permanent arrivals, returning NZer's from Australia and skill shortages attracting foreign labour.
- Students (Indian and Chinese).
- Moderation expected, as Aust vs. NZ prospects eventually shift.

Regional house listings, sales

TOTAL INVENTORY

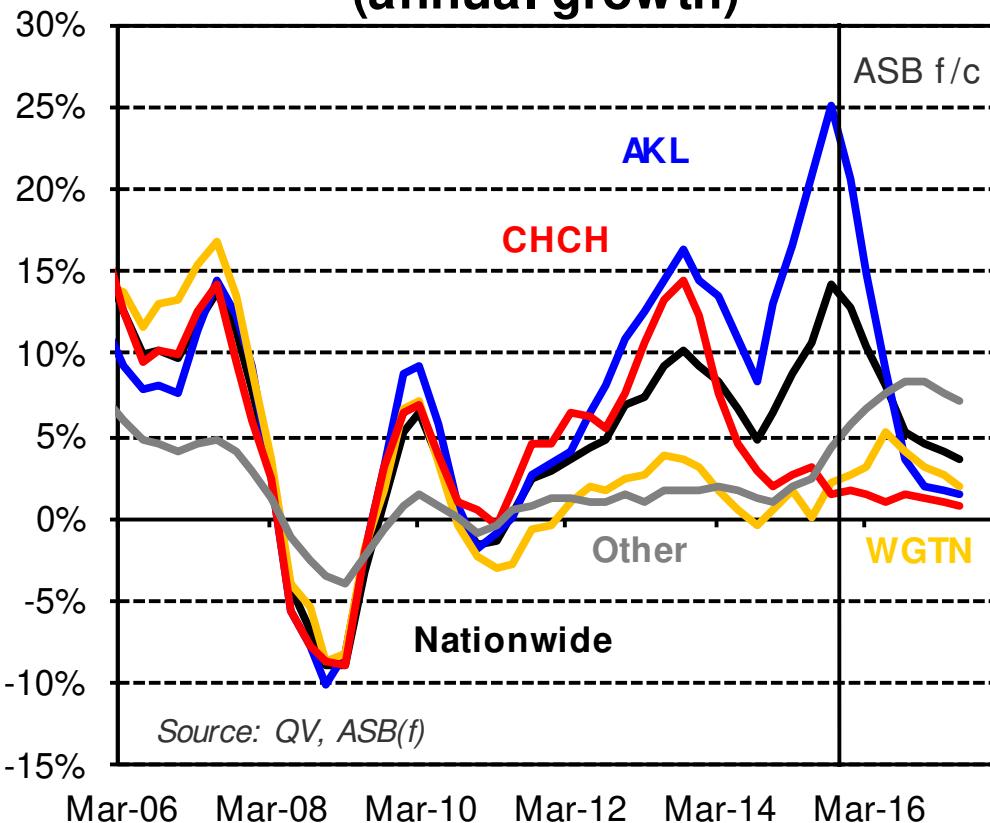


MONTHLY DWELLING SALES (seasonally adjusted)



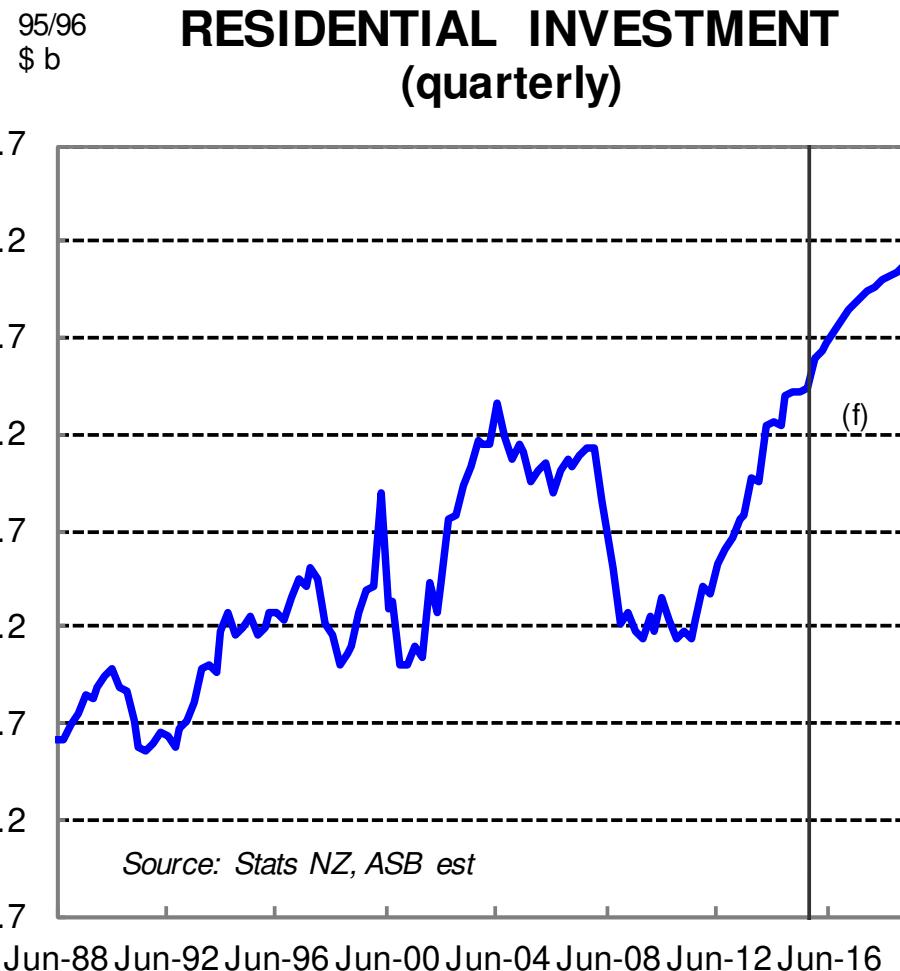
Housing market

REGIONAL HOUSE PRICE FORECASTS (annual growth)

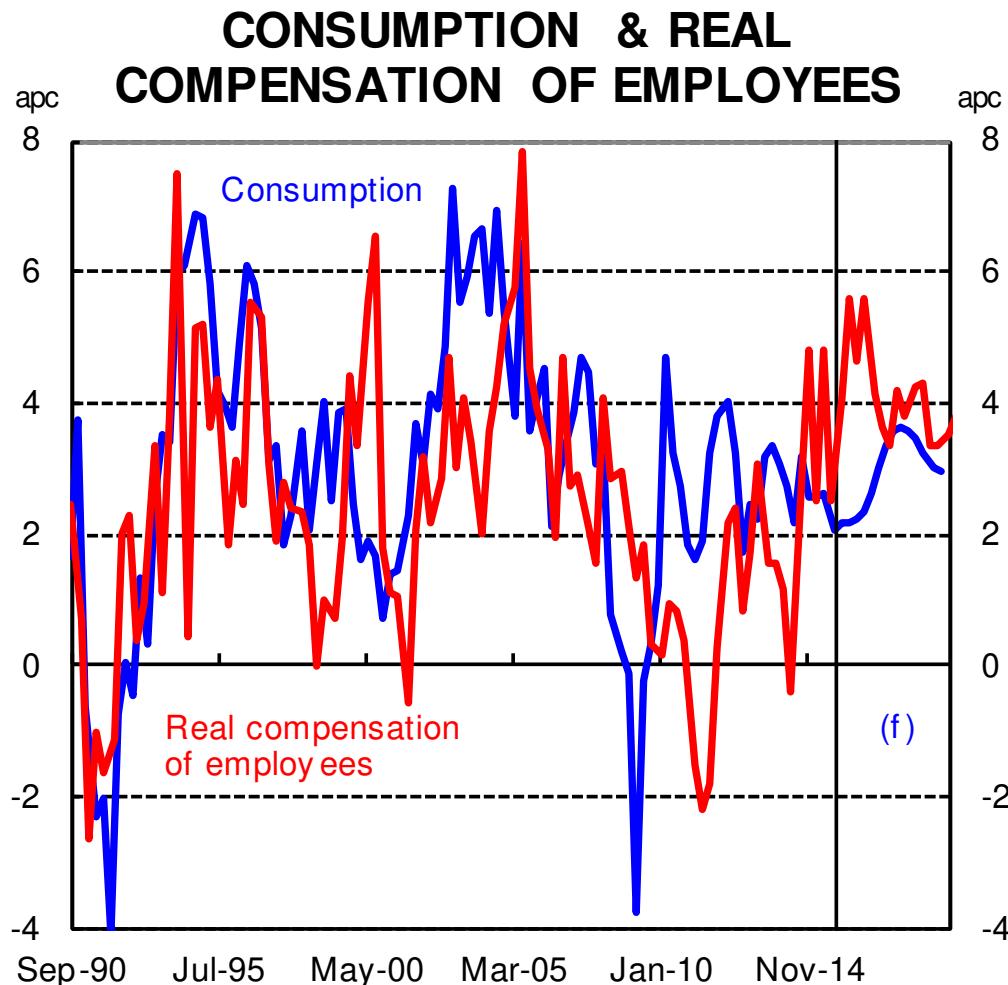


- Large initial impact from Govt and RBNZ investor restrictions.
- Auckland market moderating:
 - Slower migration
 - More construction
 - **Price resistance**
 - **Investor restrictions**
- Ex-Auckland lifting on lower interest rates, easier LVR restrictions, Auckland spillover.

Building outlook

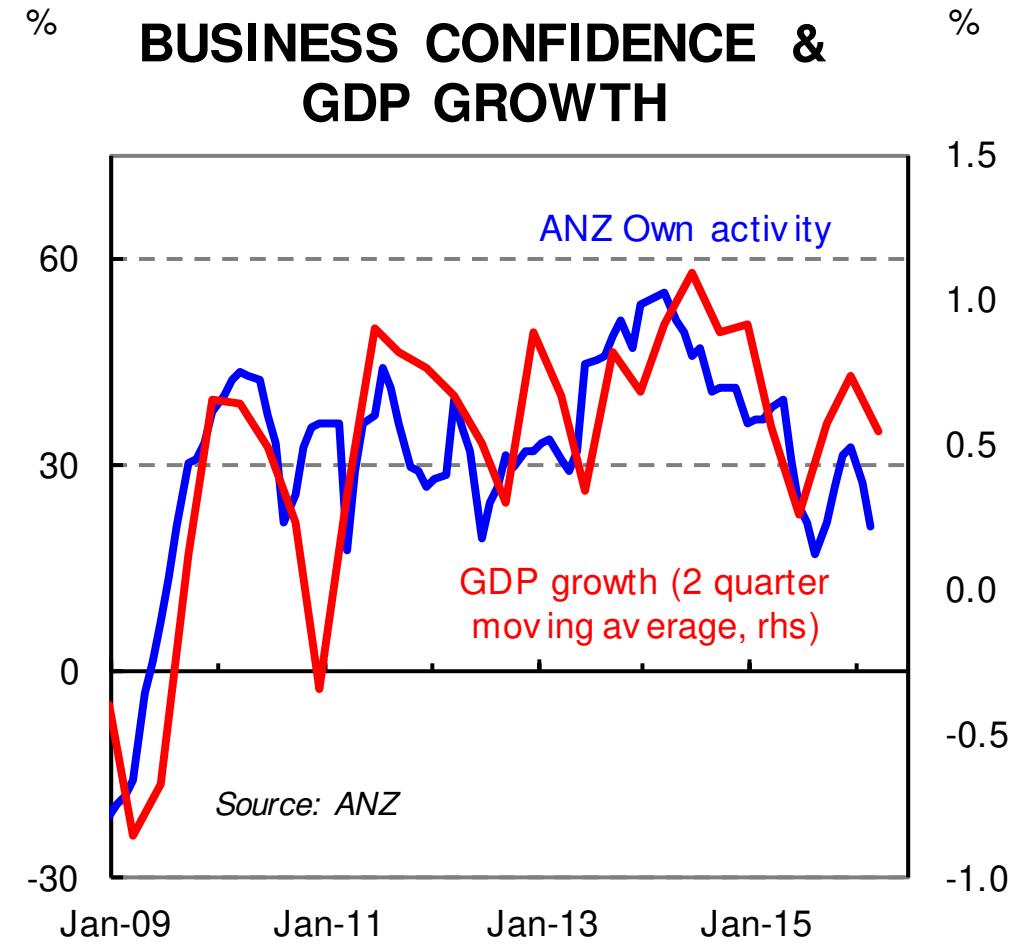
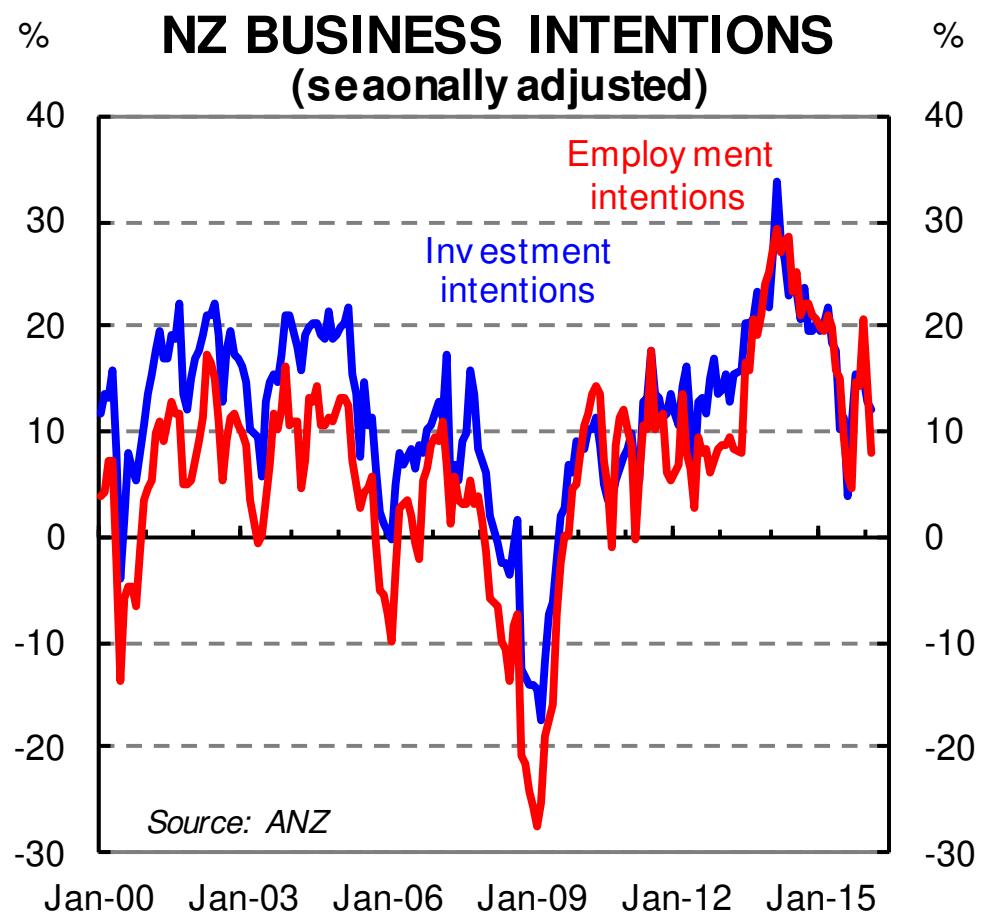


Consumer spending reasonable

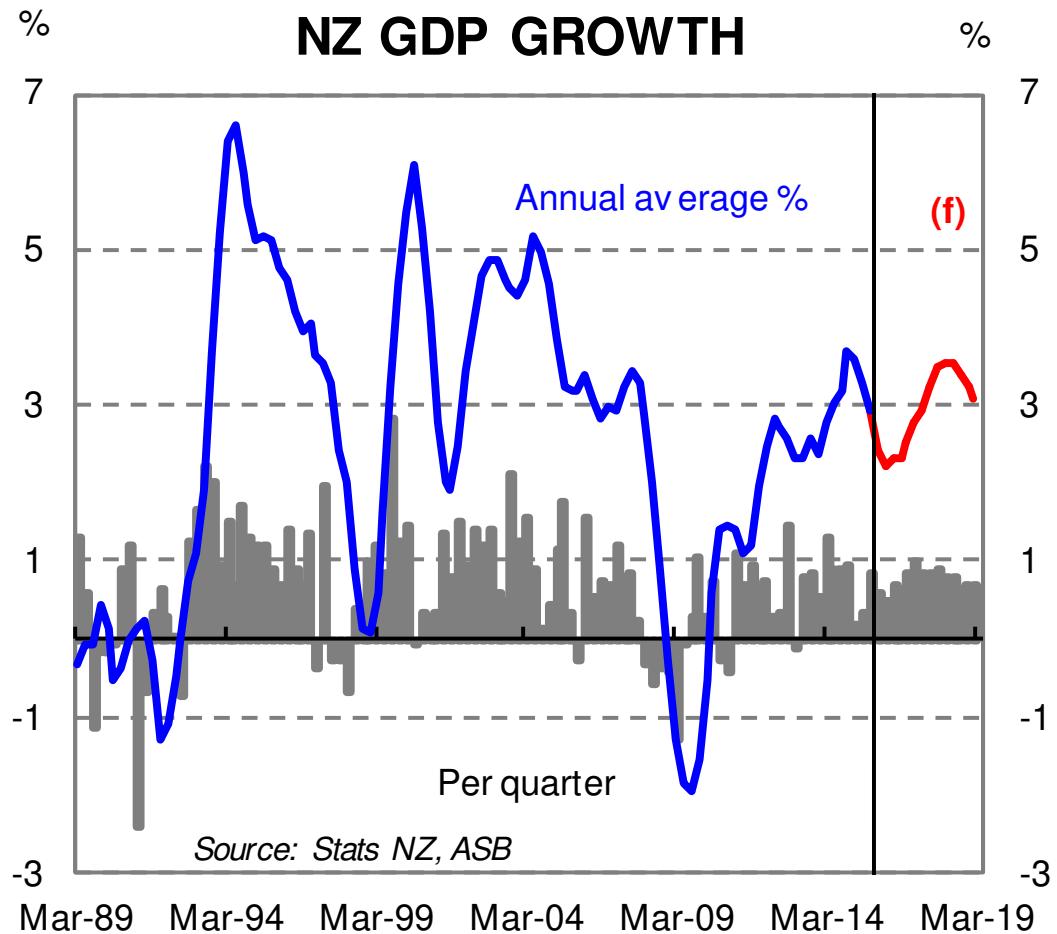


- Consumer spending growth supporting overall growth.
- Low inflation relative to wages boosting disposable income.
- Strong population growth adds to momentum still in near term.
- Dairy income constraint over the next year in provinces.

Business confidence still fragile

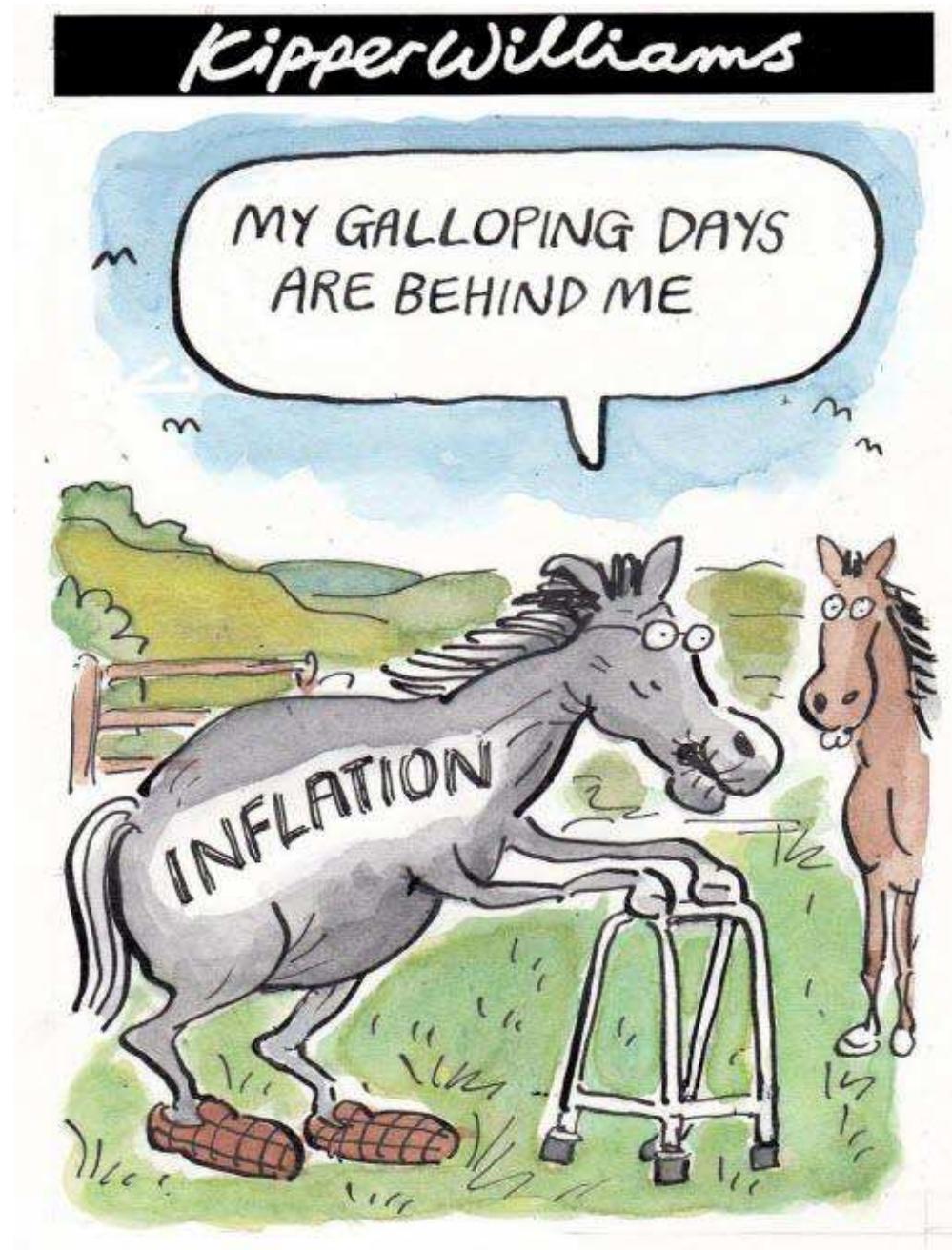


Growth moderated in 2015, back up in 2016-17

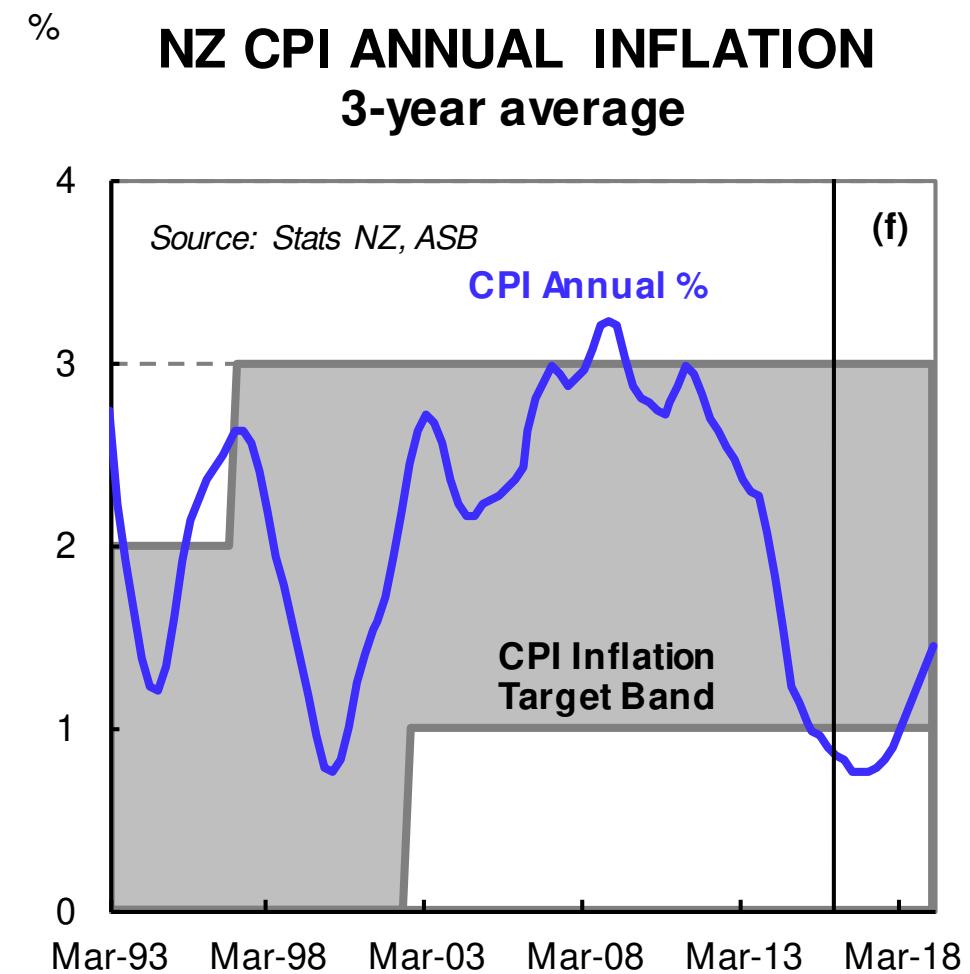
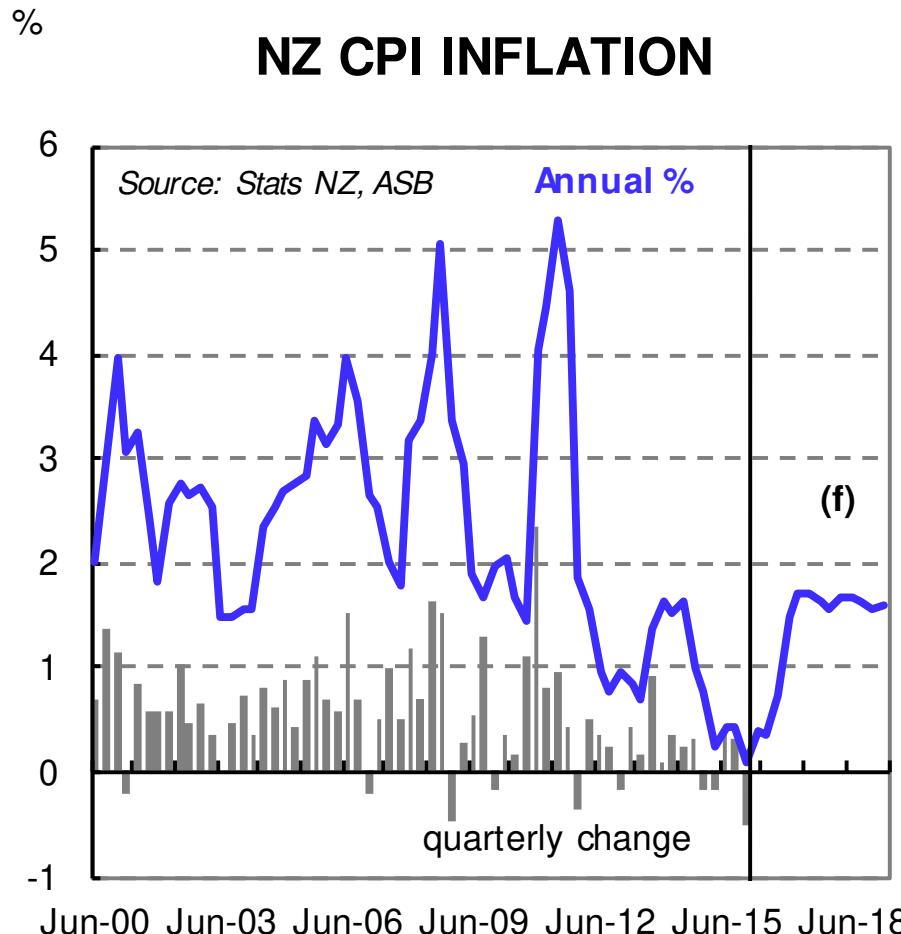


- Growth slowed in 2015. Weaker dairy incomes and production and flattening in construction.
- Population and income growth to remain key supports of NZ economy.
- Beyond dairy, export outlook is promising.
- Low interest rates and lower NZD will support recovery in growth over 2016.

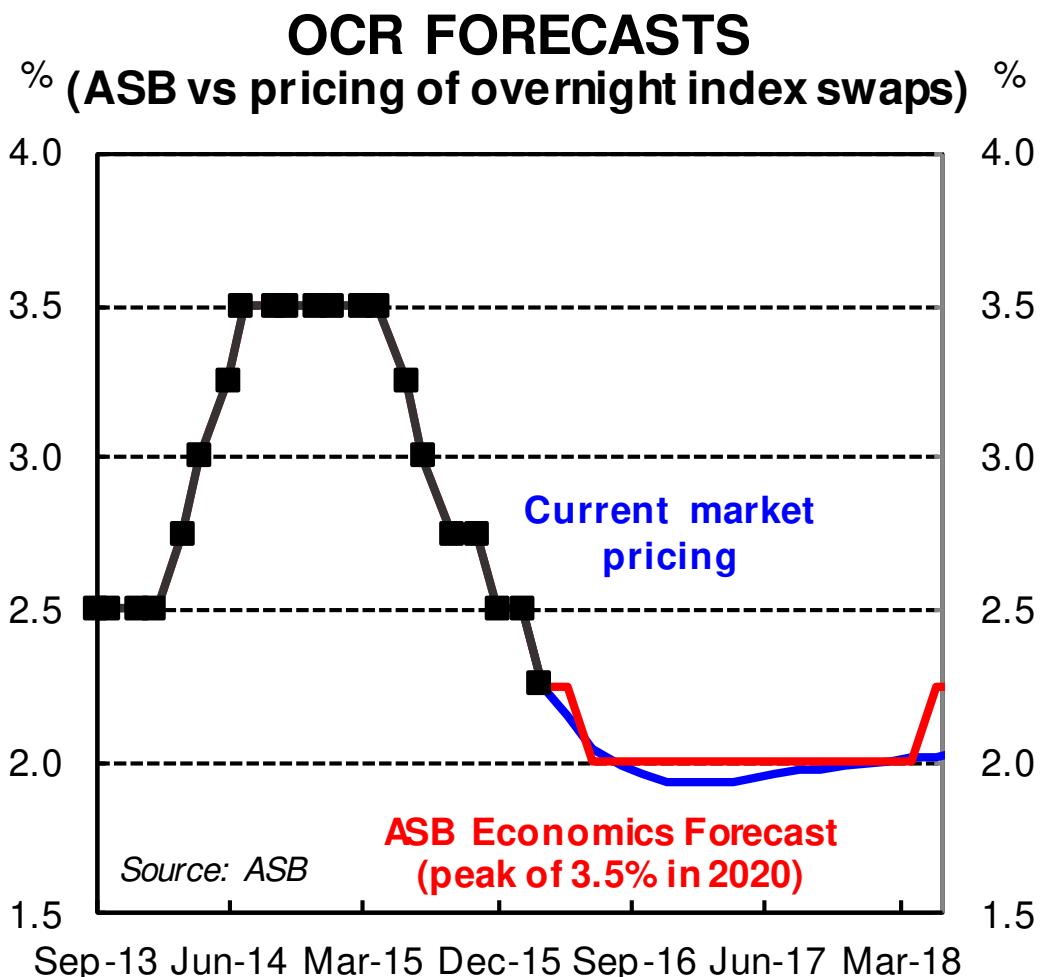
Inflation, financial markets



Inflation low for an uncomfortably long time?



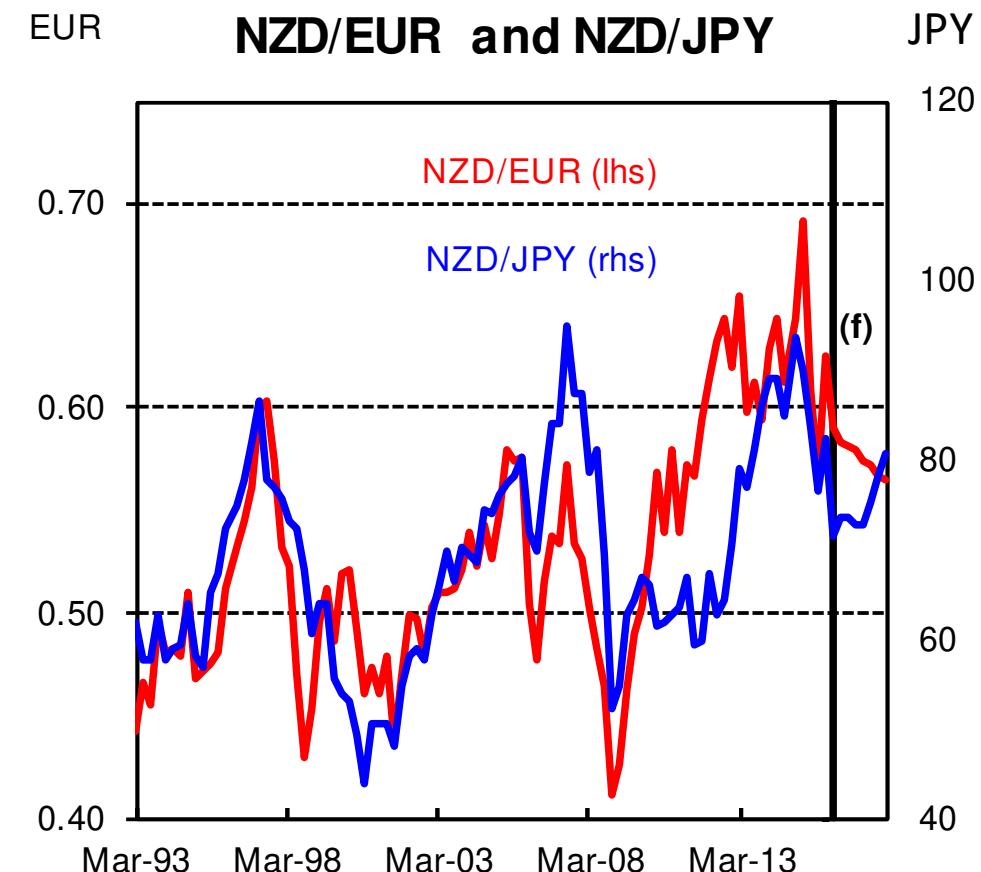
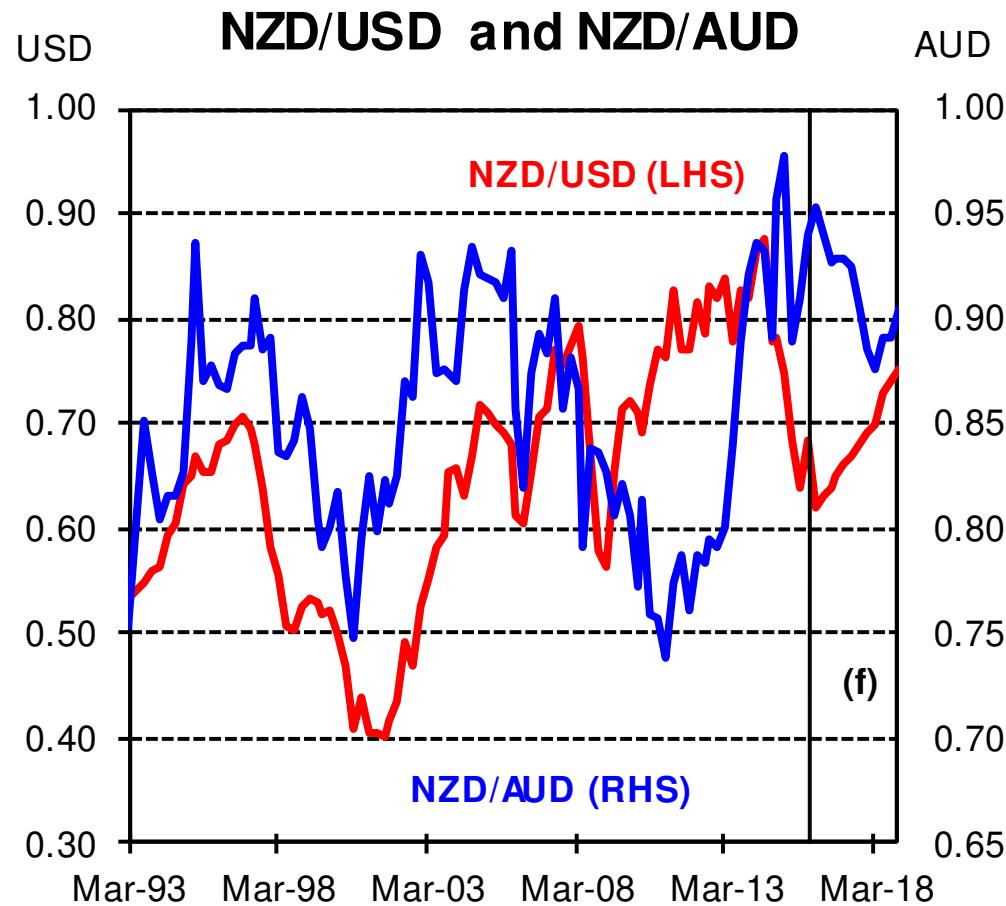
Interest rates low for a long time



- RBNZ has continued to cut the OCR into 2016.
- 2% OCR likely in 2016, can't rule out sub-2% rate.
- Next cut expected in June, but April also has a high chance.

Nick's post-GFC monetary policy Golden Rule: it is easier to unwittingly set the OCR too high than too low.

NZD has adjusted lower, slightly more to come



Summary

- Trading partner growth OK – but China a key uncertainty.
- NZ economy set to record 2+% to 3% growth over next 2 years.
- Tourism demand set to continue growing strongly.
- Domestic demand will be supported by migration flows, Auckland construction, low interest rates & NZD, real wage growth.
- Key risks: sharper growth impact from dairy; China weakness.
- Inflation pressures are low, and we expect the RBNZ to cut the OCR to 2% by mid-2016.