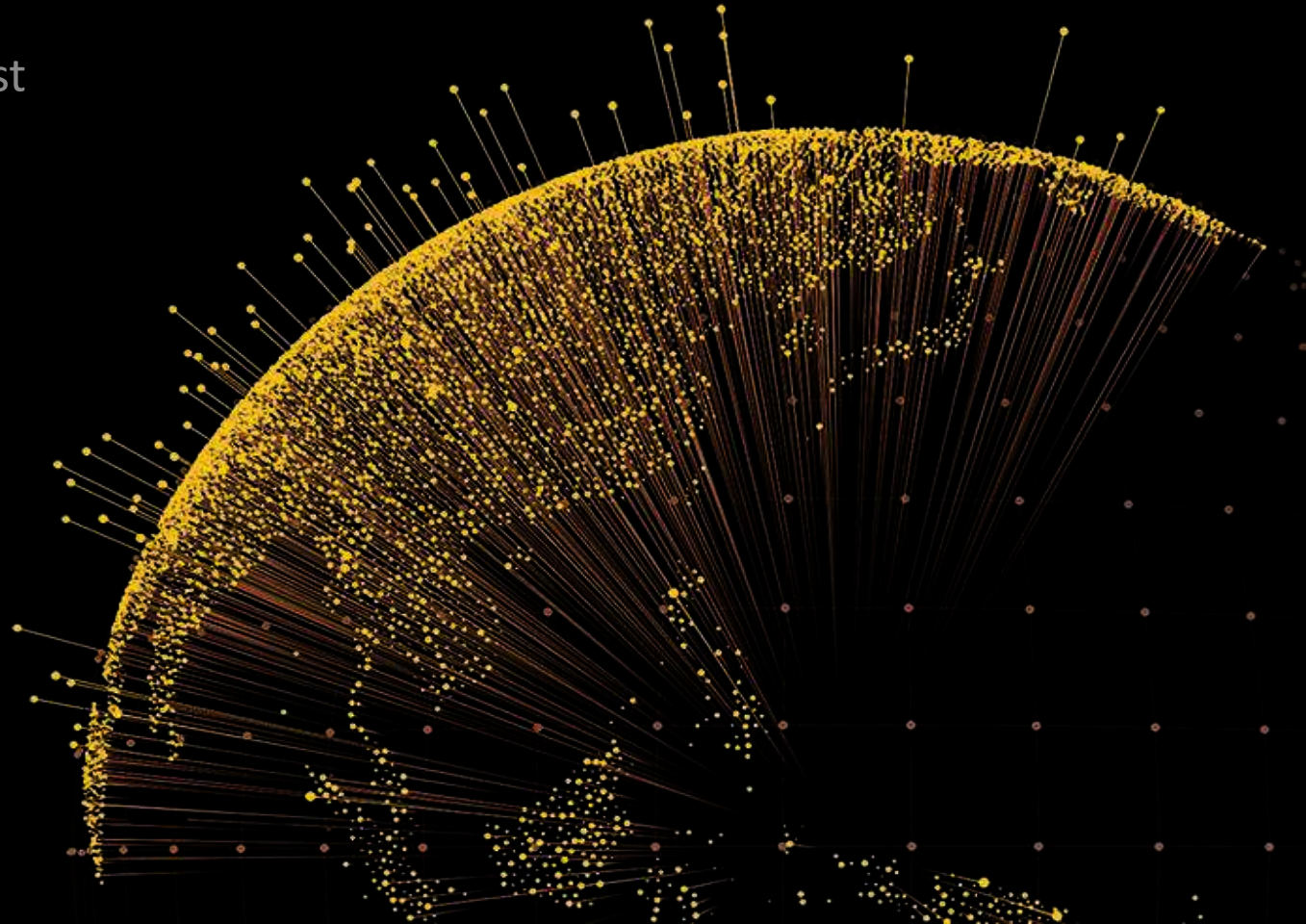


Tourism Trumping

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March 2017



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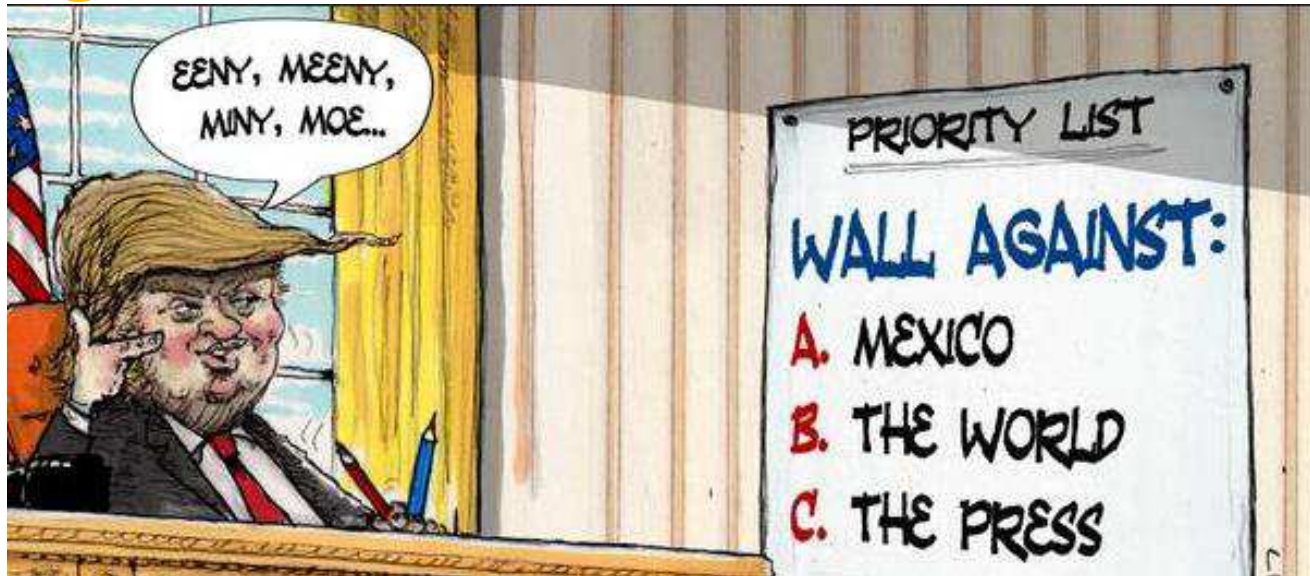
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Topics

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

Dawning of a new world



US President Trump's potential policies

- Fully policy details still to be announced.
- Cut personal income tax.
- Corporation tax to be reduced to 15% from 35%.
- Lift spending on domestic infrastructure.
- Review red-tape around the labour market and investment.
- Declare China as a currency manipulator.
- Increased protectionist policies.
- Trump's policies are generally considered to be inflationary.
- The great unknown is the impact on global trade and growth.

French Presidential election 2017



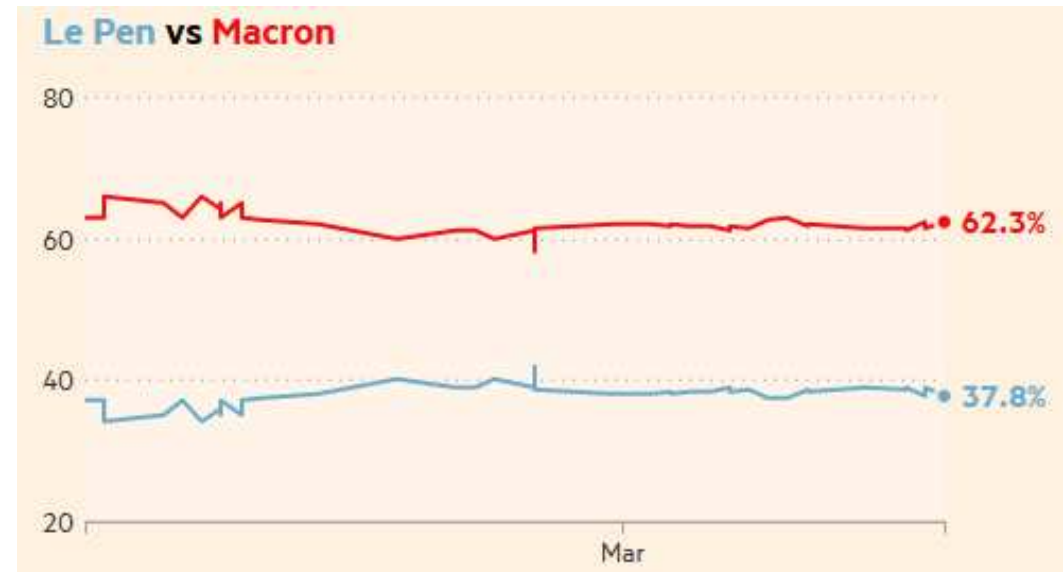
French Presidential election 2017

- 2-step process
 - Round 1: Sunday April 23. 11 candidates.
 - If no candidate gains an absolute majority, a run-off is held:
 - Round 2 Sunday May 7, with the top two facing off.

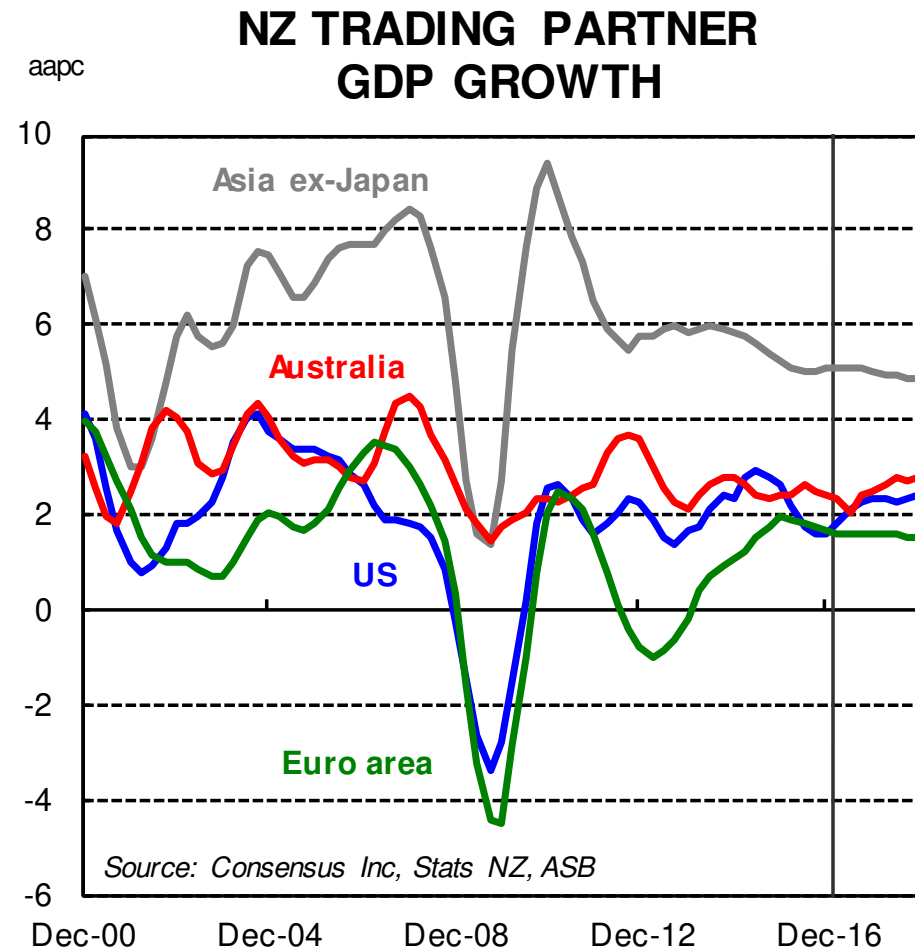
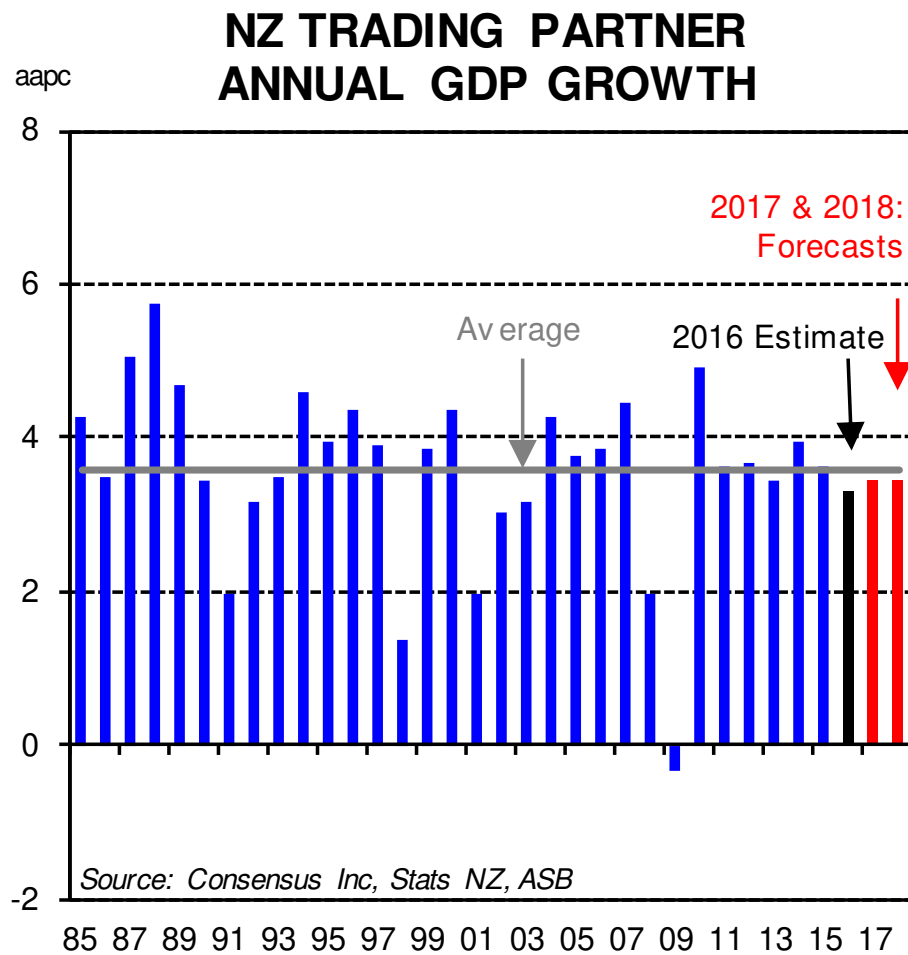
Round One Polls



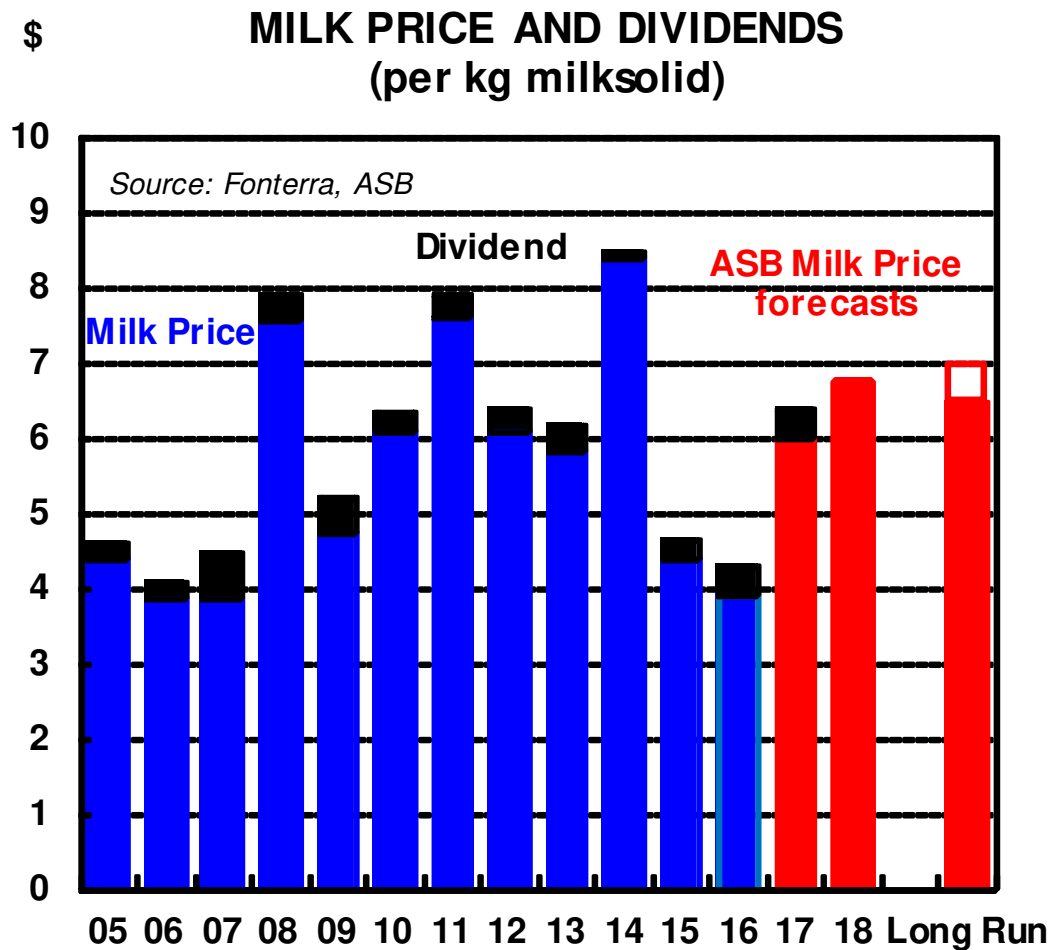
Round Two Polls



Broad global outlook

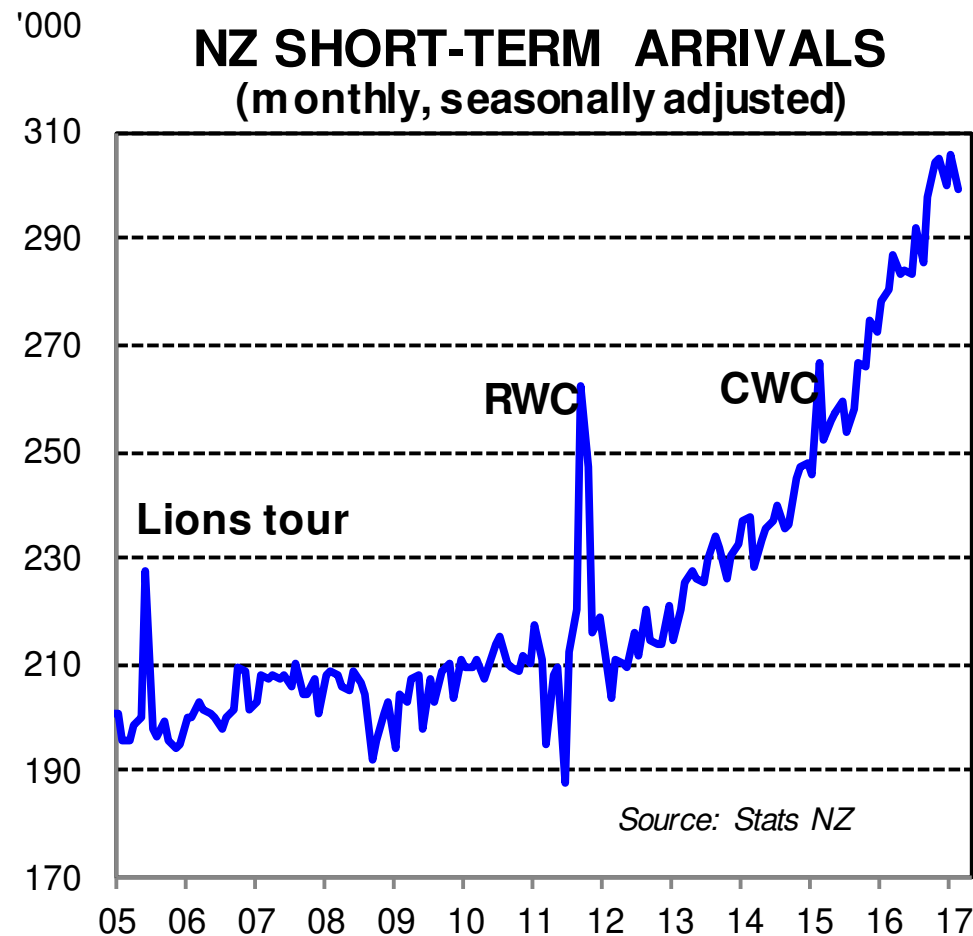


Milk price forecast



- We revised our forecast back down to \$6.00/kg, following greater than expected production through the NZ summer.
- However, we remain optimistic heading into next season.
- We are forecasting \$6.75/kg for 2017/18.

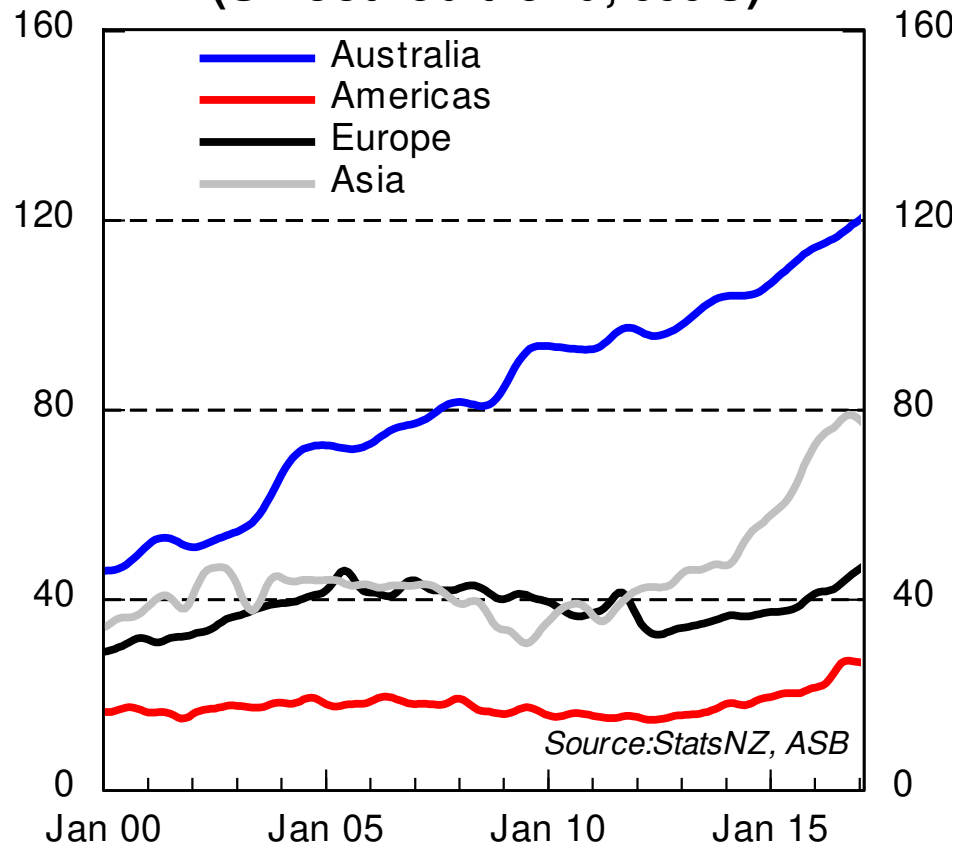
Tourism booming



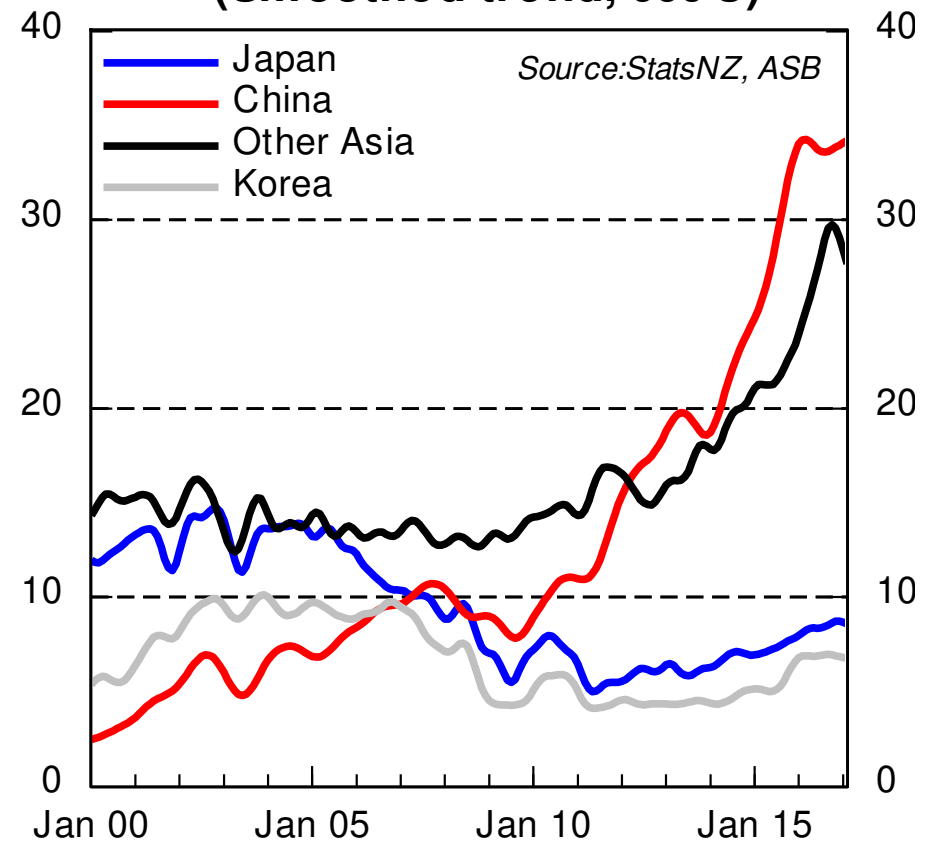
- Tourism numbers and spend continue to lift strongly.
- Source of arrivals remains broad, limiting risk of a downturn.
- Capacity constraints could act as a brake to growth.

Tourism key markets

VISITOR ARRIVALS
(Smoothed trend, 000's)

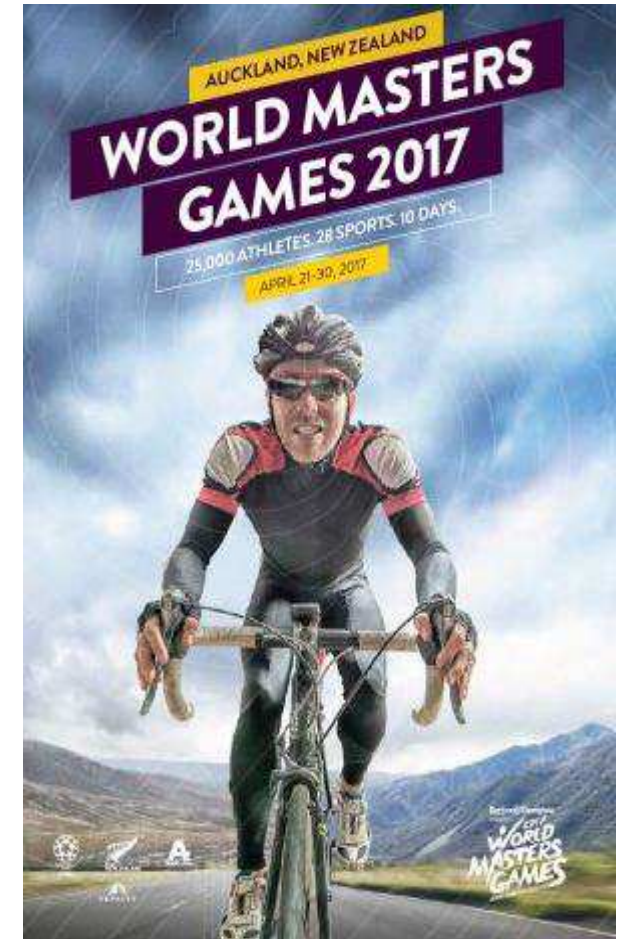


ASIAN VISITOR ARRIVALS
(Smoothed trend, 000's)



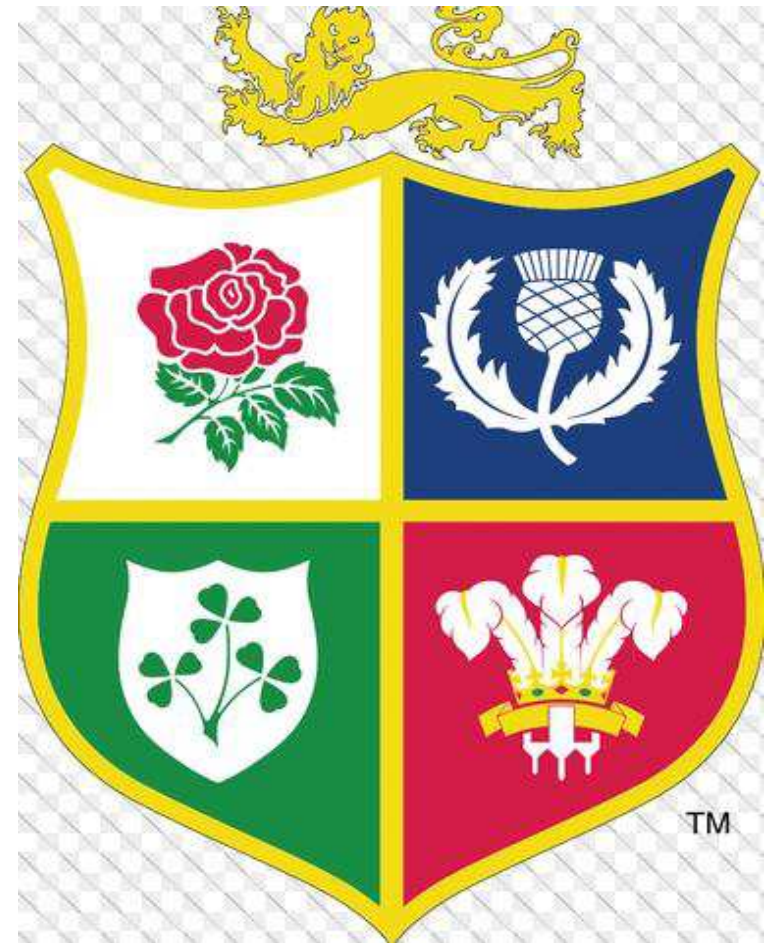
World Masters Games – Auckland April 2017

- April 21-30.
- 27,000 athletes. 16,000 international, vs 11,237 at Rio Olympics 2016.
- Most aged 40-59, ave. income NZD145,000.
- International athletes expected to spend 9 days on holiday in NZ, post 10 days of games.
- \$30mn net boost to Auckland's economy.
- 244,000 visitor nights in Auckland.
- Potential for further lift to tourism outside Auckland.



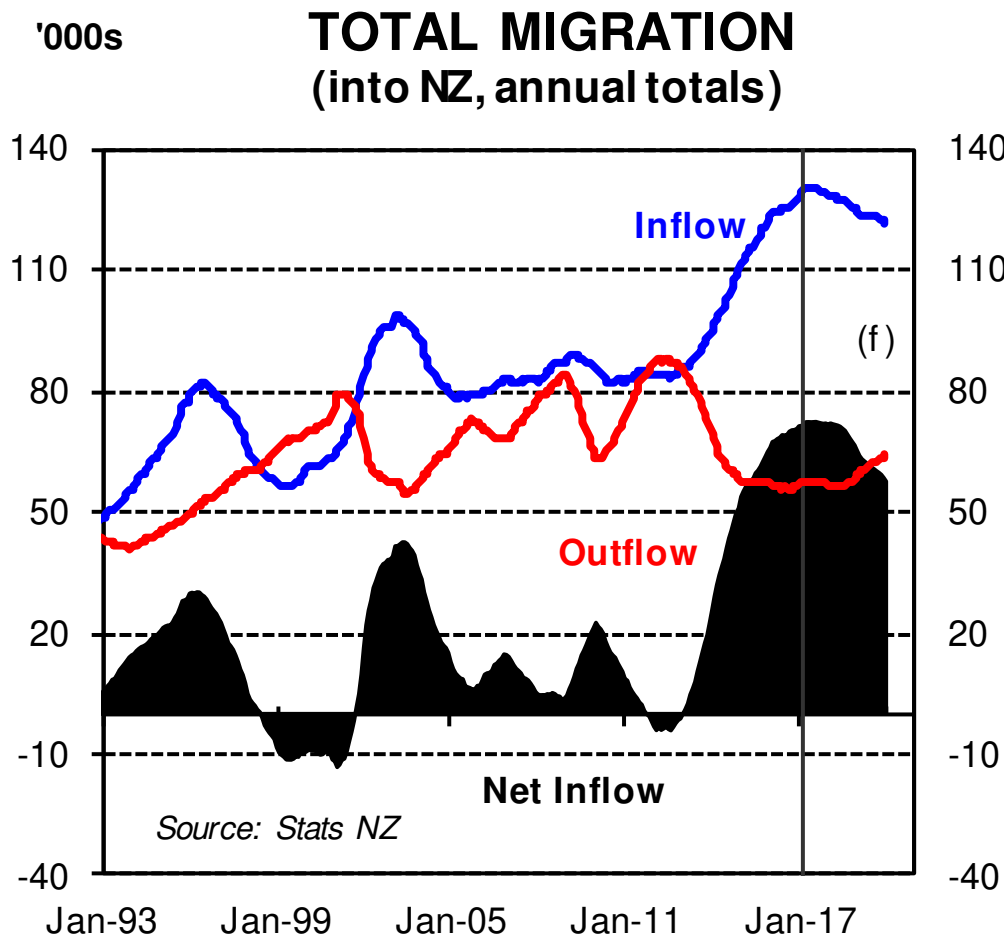
British & Irish Lions Tour: 3/6 – 8/7

- 10 games– 3x Auckland, 2x Wellington, 1x Christchurch, Whangarei, Dunedin, Rotorua, Hamilton (vs 11 in 2005). Same number of tickets – 360k – available.
- 2005 tour saw additional 30,000 tourists (seasonally-adjusted), mostly from Europe.
- NZ Treasury has warned GBP weakness following Brexit could impact tourist spend and tourist numbers.
- 2005 tour had economic benefit to NZ of \$135.2m (source: NZ Treasury).



NZ Overview

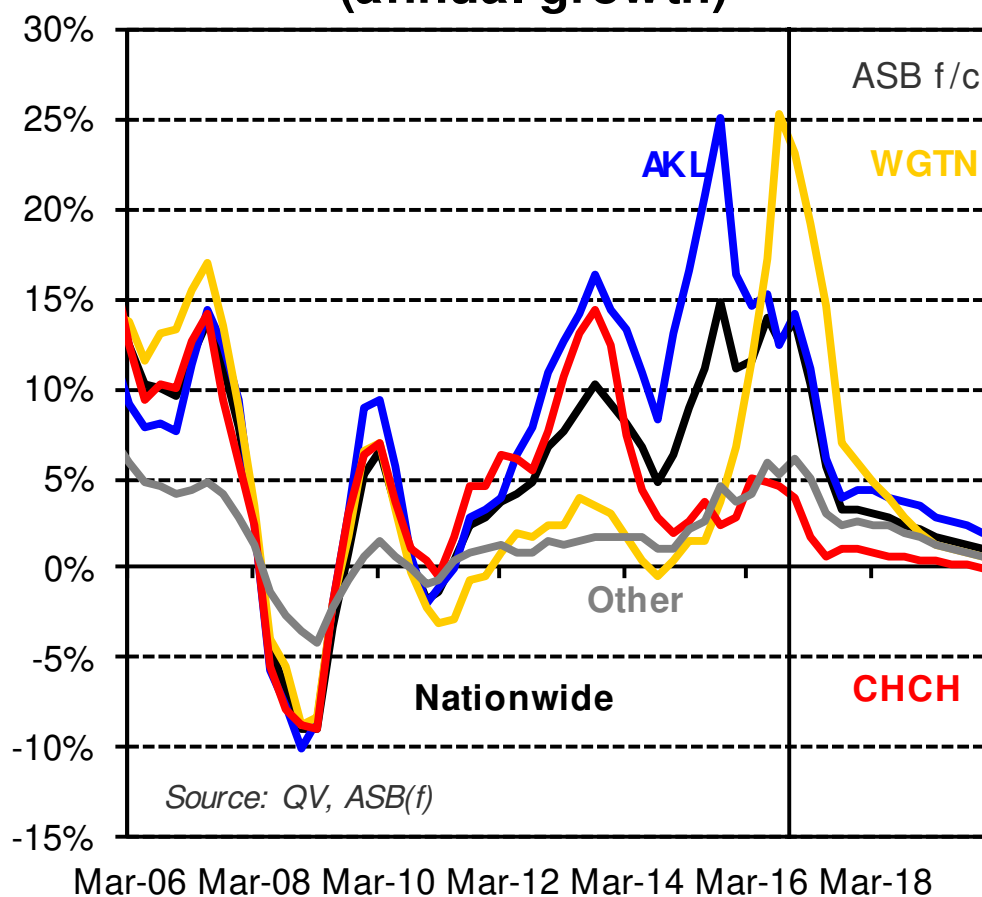
Strong population growth through migration



- Net migration at record highs.
- Fall in permanent departures while Australian job opportunities are muted.
- Increased permanent arrivals, returning NZers from Australia and skill shortages attracting foreign labour.
- Students (Indian and Chinese) as a % declining, replaced by work visa entrants.
- Moderation expected, as Aus outlook eventually improves

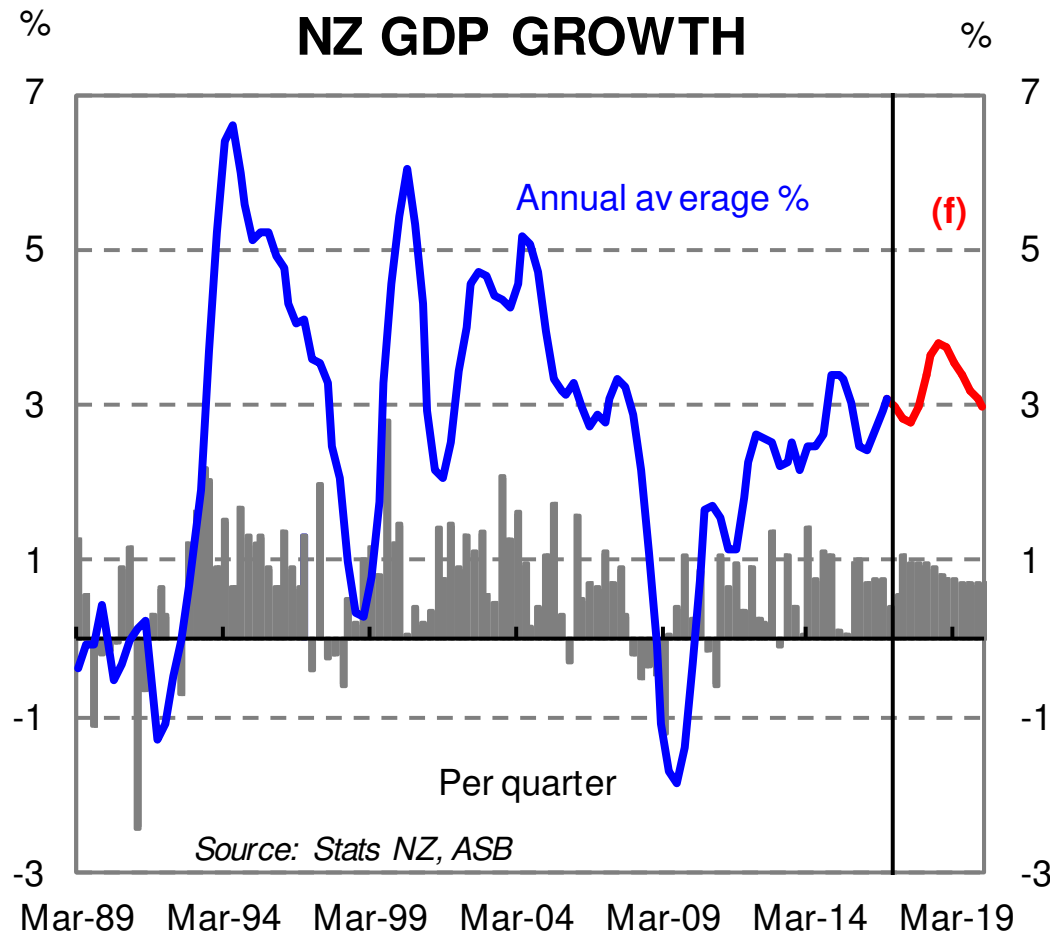
Housing market

REGIONAL HOUSE PRICE FORECASTS (annual growth)



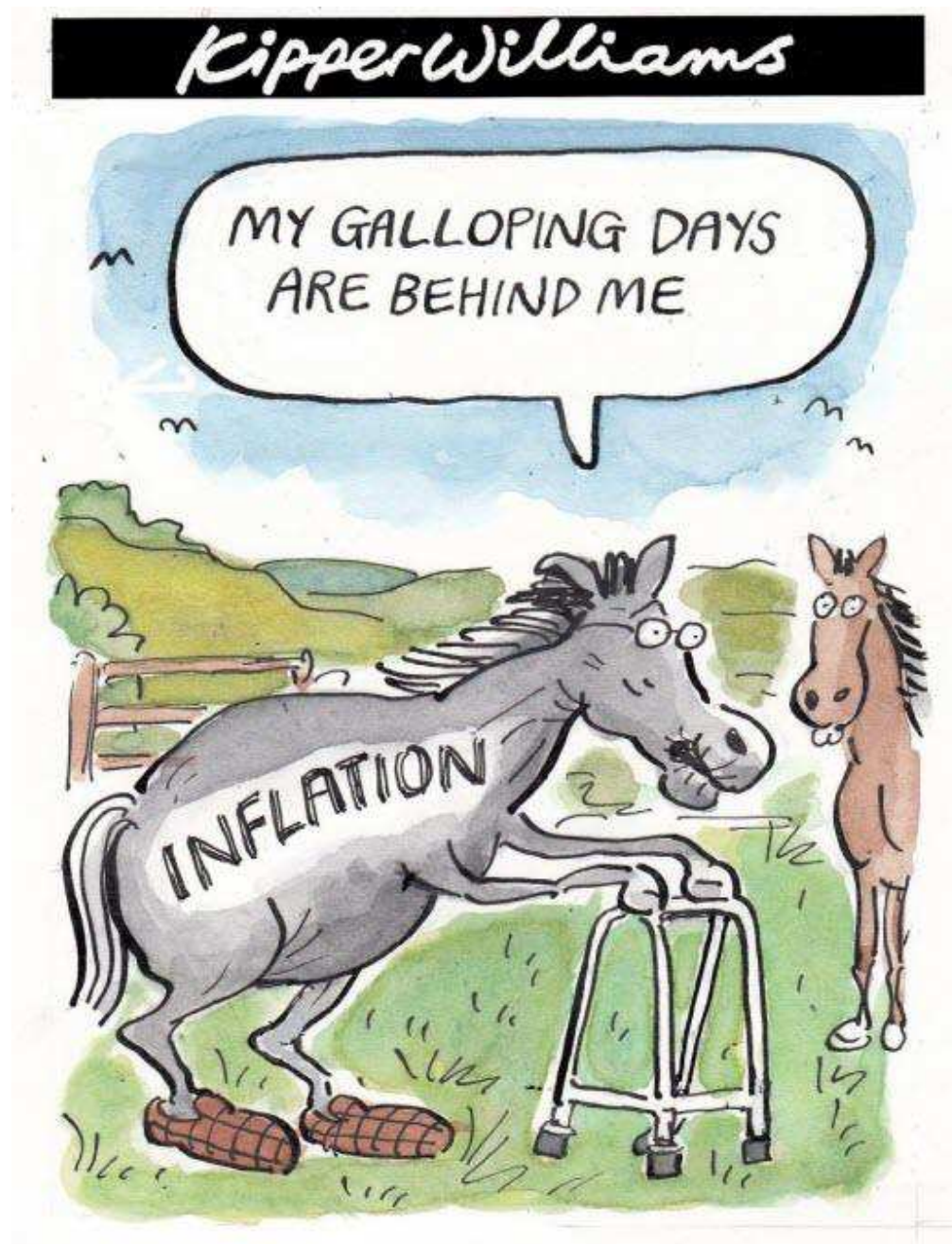
- House price growth started to slow in Auckland from mid-2016, slight falls in near term.
- Most regions seeing price growth slow since restrictions.
- New restrictions: flat/falling prices in late 2016/early 2017, slight bounce in 2017H1.

Growth moderated in 2015, back up in 2016-18



- 2016 saw some recovery from a soft 2015, although growth slowed into year-end.
- Low interest rates and past fall in NZD will support growth over 2017.
- Dairy recovery supportive.
- Population and income growth to remain key supports of NZ economy.

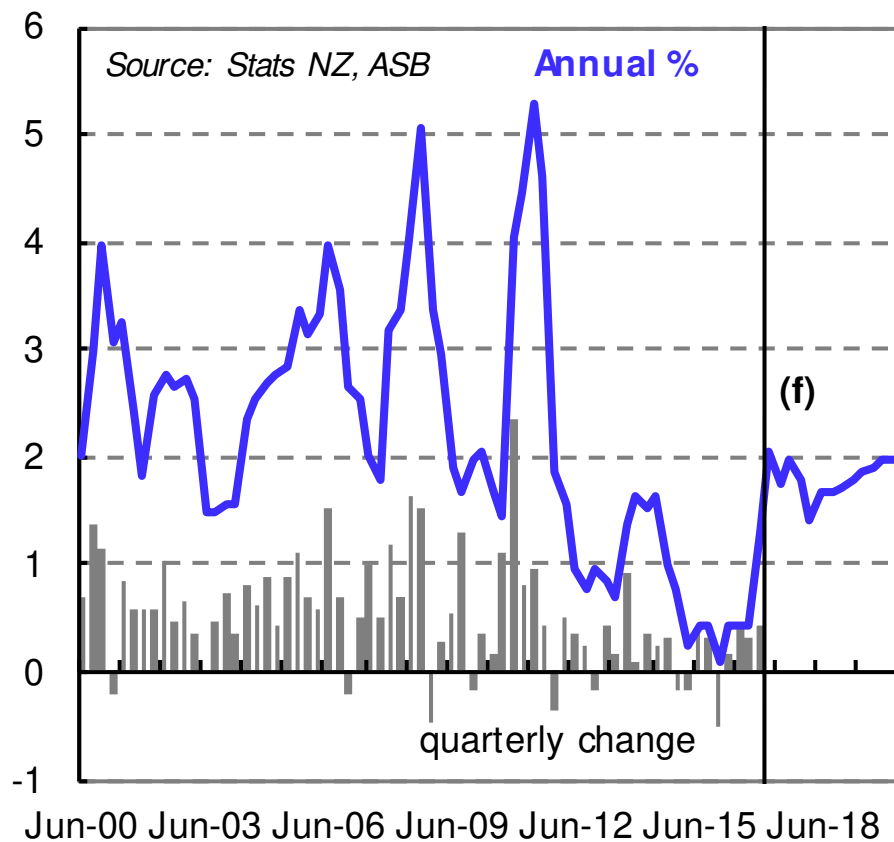
Inflation, financial markets



Inflation: now back above 1%

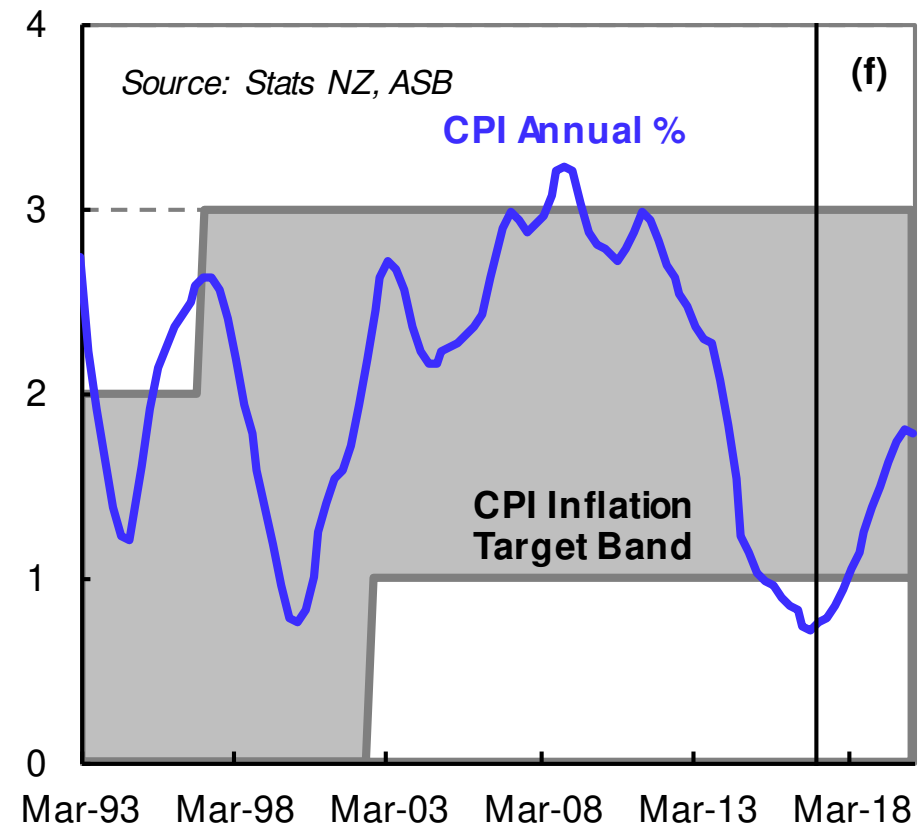
%

NZ CPI INFLATION

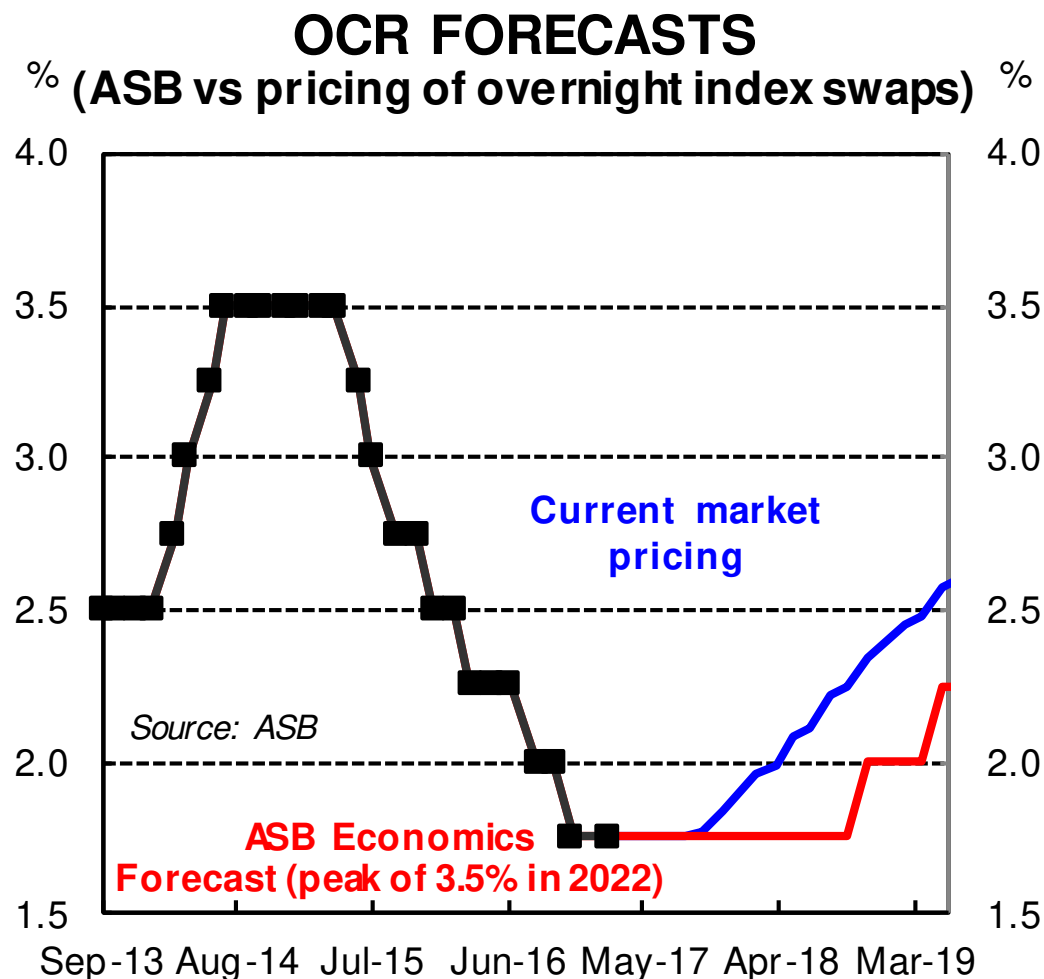


%

NZ CPI ANNUAL INFLATION 3-year average



Interest rates low for a long time



- The OCR is comfortably on hold now. High threshold for further cuts.
- Market pricing of OCR hikes partly reflects impact of sudden change in global outlook generated by Trump.
- We estimate the market has got ahead of itself and pricing will eventually soften to reflect that.

Summary

- International events likely to have a big influence on 2017.
- NZ economy set to pick up to 3.5% growth over 2017 & 2018.
- Tourism buoyant, but capacity constraints may limit growth.
- Growth will be supported by migration flows, construction, low interest rates, real wage growth, tourism and dairy recovery.
- Key risks: Trump; Brexit fallout; European elections; higher NZD.
- Inflation expected to remain comfortably above 1%, but downside risks remain.
- The RBNZ is expected to hold the OCR at 1.75% for the foreseeable future. Market slightly ahead of itself.