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# 2007 NZ Economics Update

Australia and New Zealand Banking Group Limited

10 October 2007

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**ANZ**

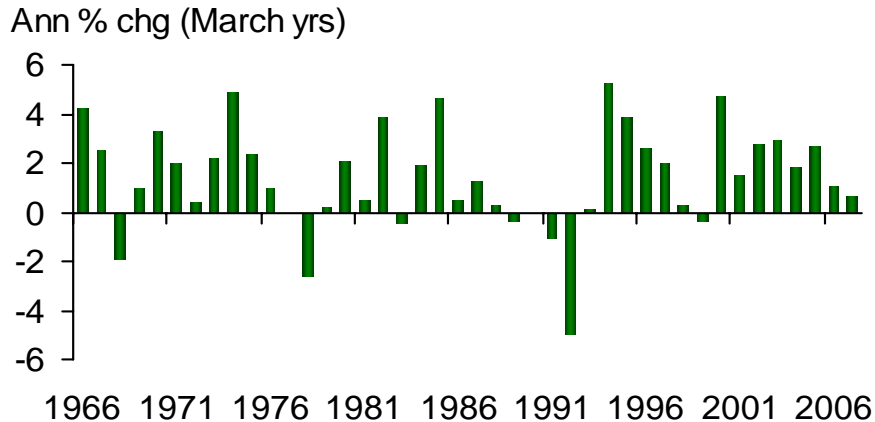
# Economic summary

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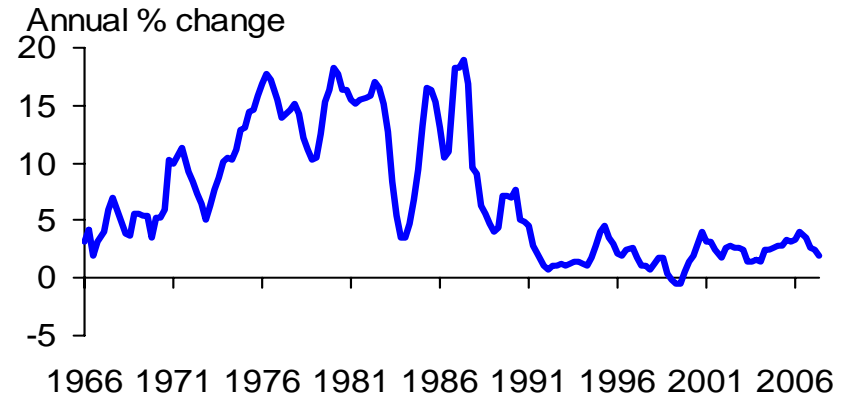
- Macro-policy settings remain strong, with unemployment and inflation low, and solid real per-capita growth relative to international peers.
- Strong international soft commodity prices, natural resources (potentially oil), and growing integration with Asia are presenting New Zealand with real opportunities.
- Maximising these opportunities will require a significant improvement in productivity growth – the missing link to delivering economic nirvana for the nation.
- The near-term cyclical outlook remains dominated by inflation pressure, which is necessitating a period of sub-trend growth. Moreover, growth remains heavily dominated by the domestic economy. Improved export sector earnings and performance are critical to achieving a better balance to growth.
- While pockets of the economy continue to perform well and the dairy sector is booming, the housing market is slowing, and is expected to weigh on momentum over the coming year. The Reserve Bank is clear in its desire to see moderating domestic activity. The prevalence of inflation leaves it little choice.
- Such dichotomies across different sectors are reflected in divergent paths for credit growth of late. Housing is slowing, while other pockets such as rural are booming. Lending from non-bank financial institutions has slowed rapidly with banks filling some of the void.
- As a significant net borrower, New Zealand is very vulnerable to altered risk appetites and credit conditions. Recent dislocation around the globe and the re-pricing of risk could have a significant impact on certain leveraged pockets. Domestically, turbulence across non-bank financial institutions presents both an opportunity (consolidation) and risk (spillover into the property sector).
- Monetary policy is likely to be on hold for an extended period. At this stage, upside risks to inflation appear broadly countered by tighter financial conditions delivered through wider swap and credit spreads.

# Broad macro position remains strong

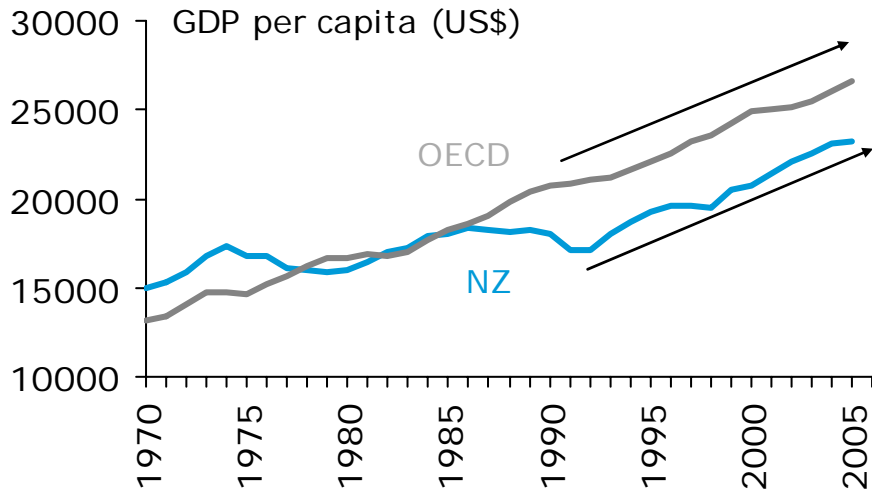
## GDP Growth per Capita



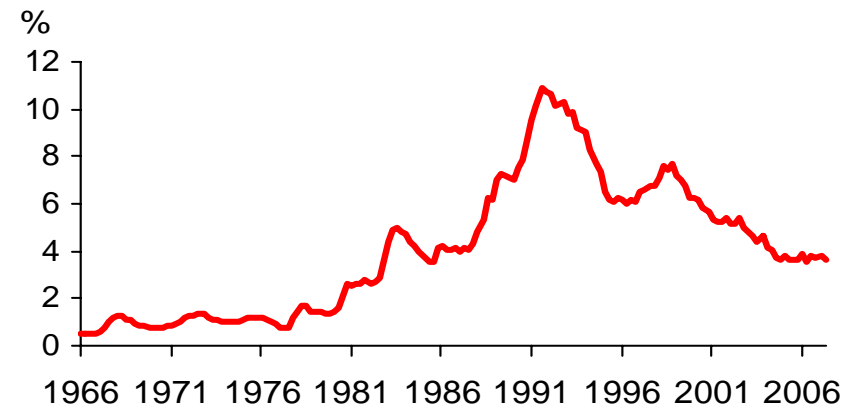
## Consumer Price Inflation



## GDP per Capita: NZ v OECD



## Unemployment Rate

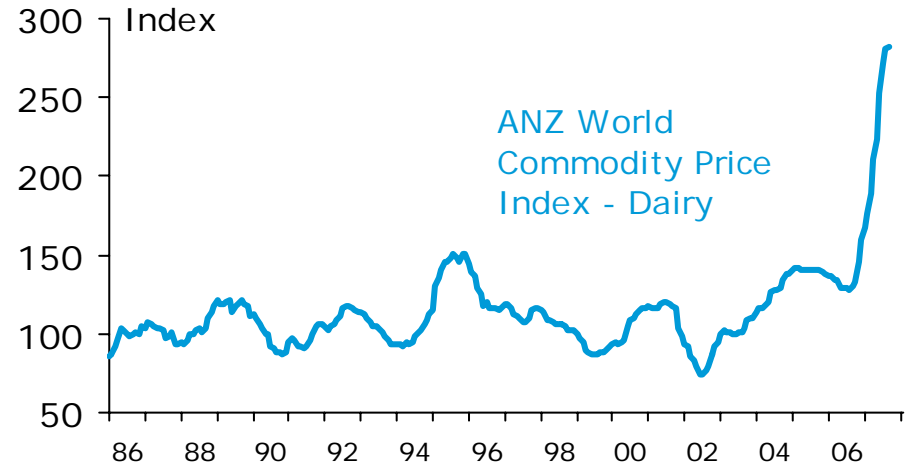


# There are some real opportunities

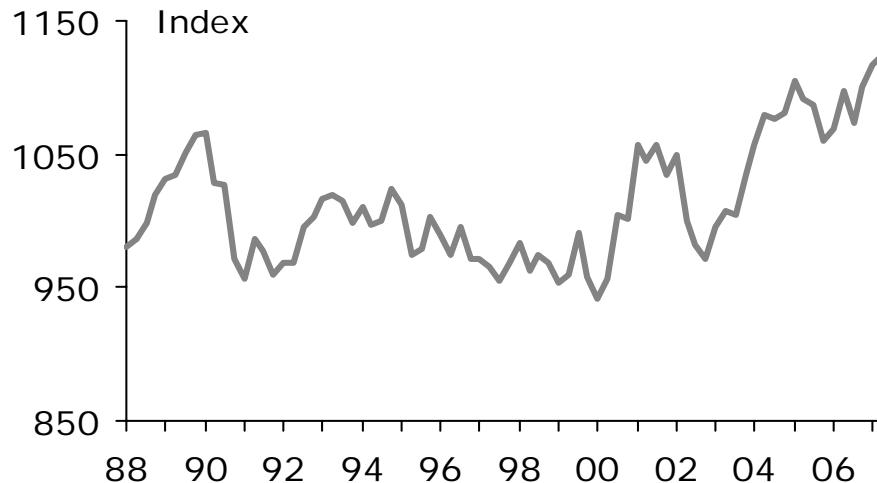
## Visitor arrivals – Tourism NZ's largest industry



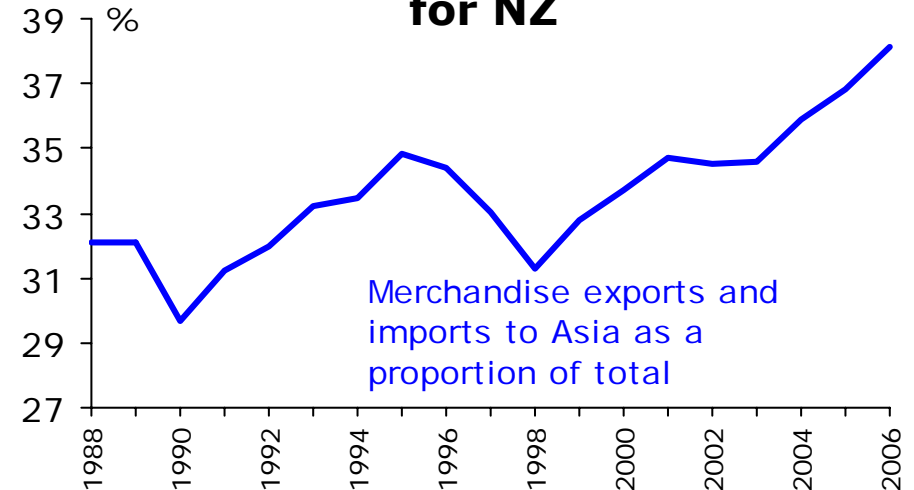
## Dairy Prices



## Terms of Trade are elevated



## Asia is becoming a bigger market for NZ

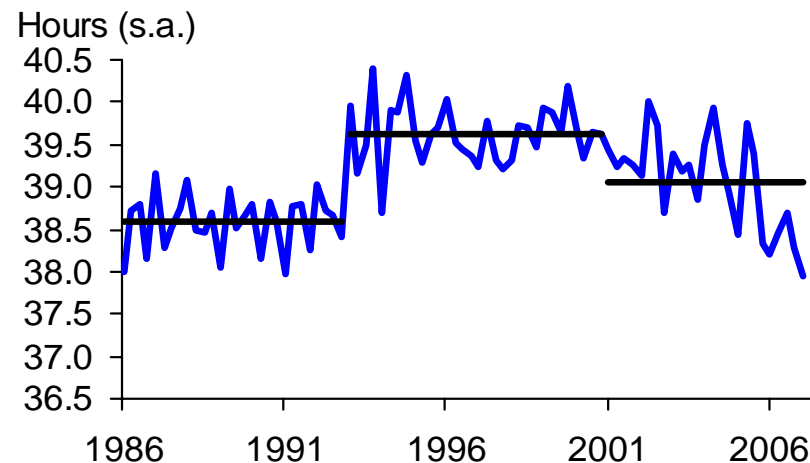


# However, the economy is facing some structural issues that may cap some of the "opportunities" being presented

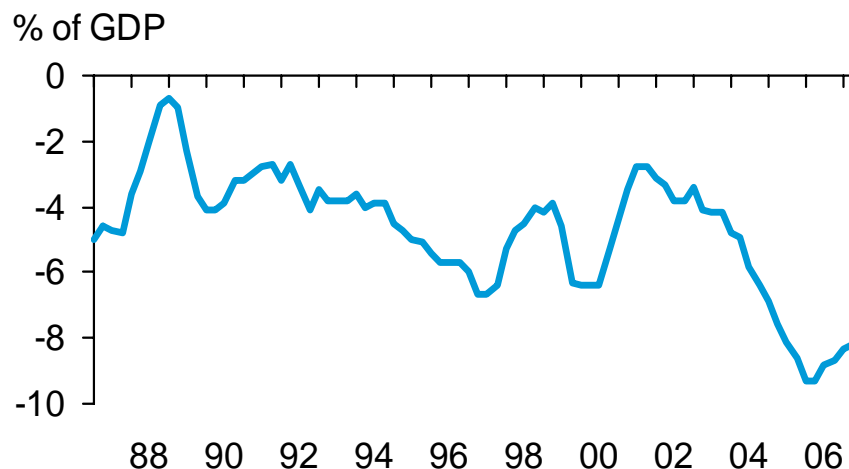
## Productivity Growth



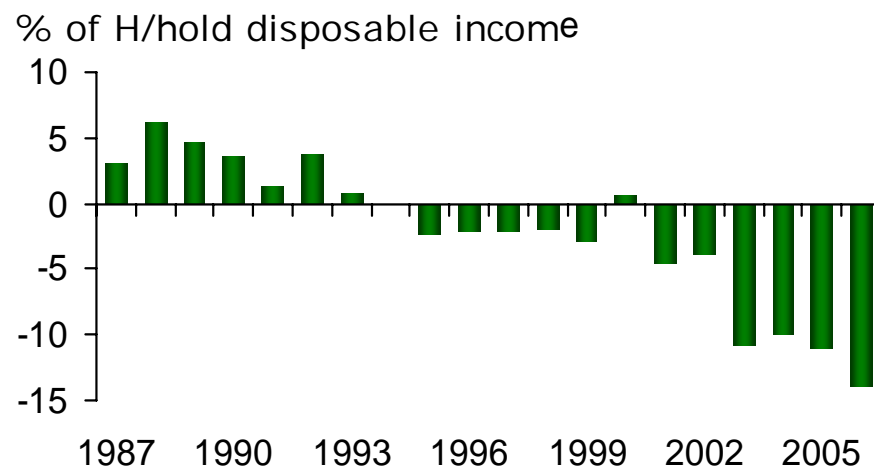
## Hours Worked per Full Time Employee



## Current Account

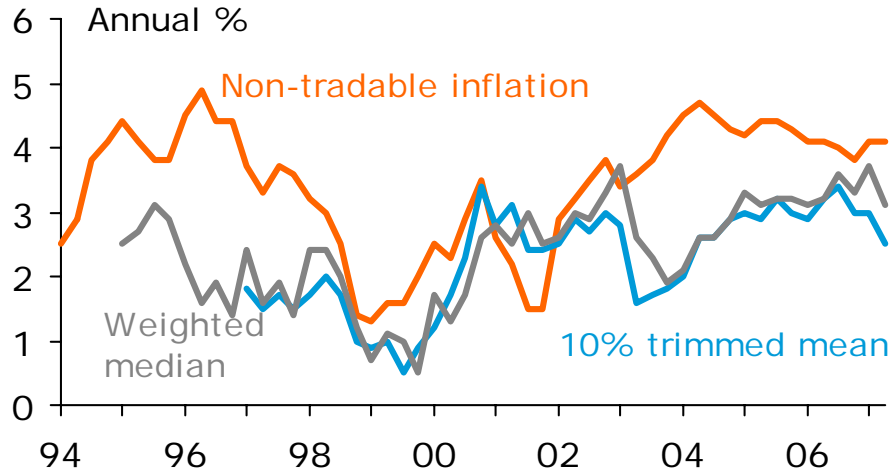


## Household Savings Rate

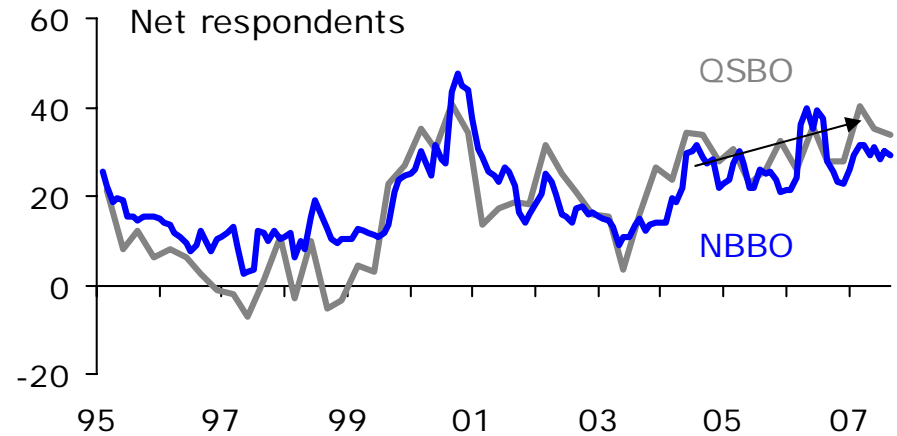


# Inflation will determine the cyclical outlook for the economy over the coming years. Growth needs to slip below trend.

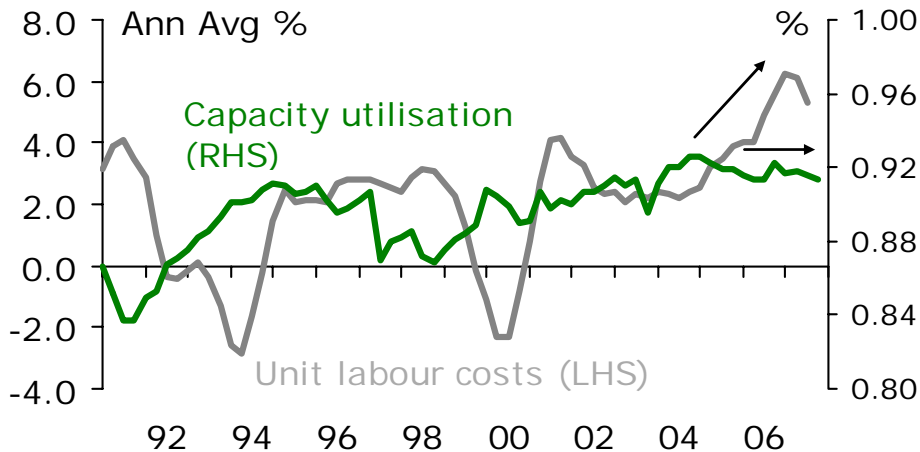
## Core inflation measures remain sticky around 3-4 percent



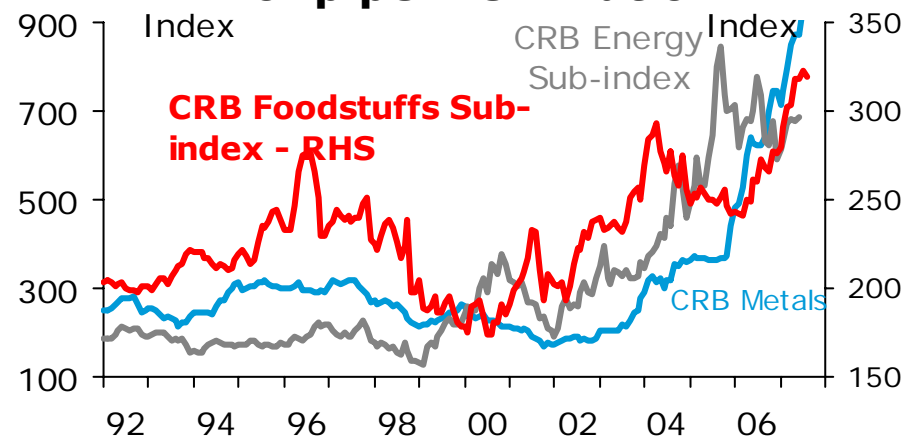
## Pricing intentions are still high



## Persistent resource and cost pressures

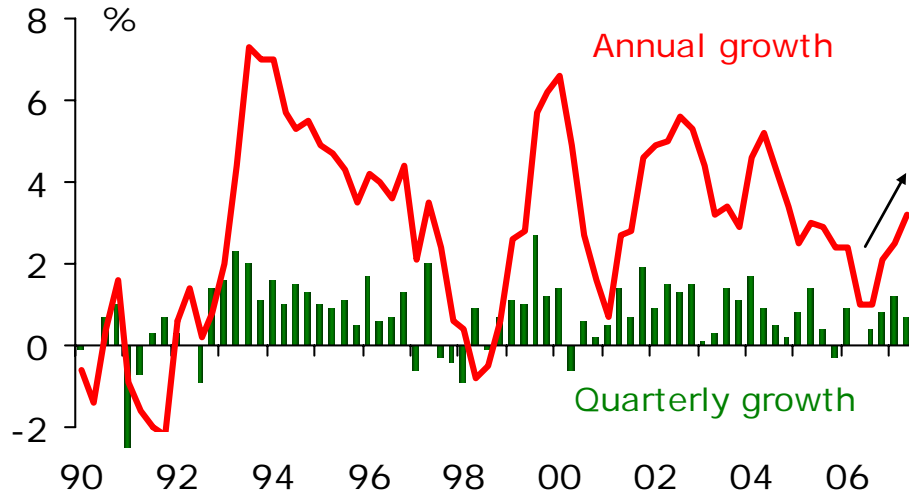


## Commodity prices allude to a lot of pipeline inflation

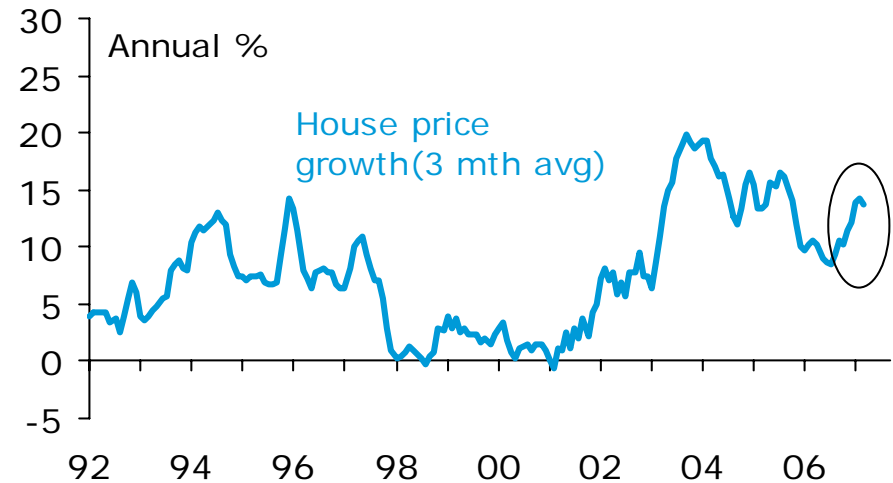


# The economy performed well in the first half of the year

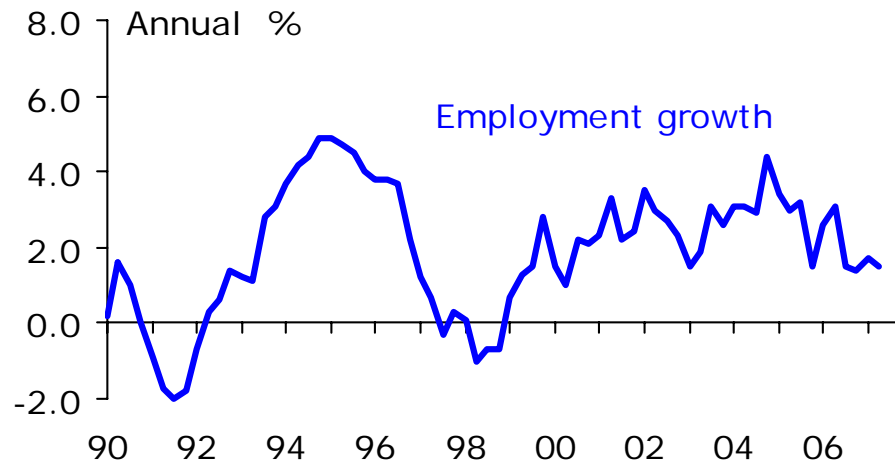
## Economic growth rebounded



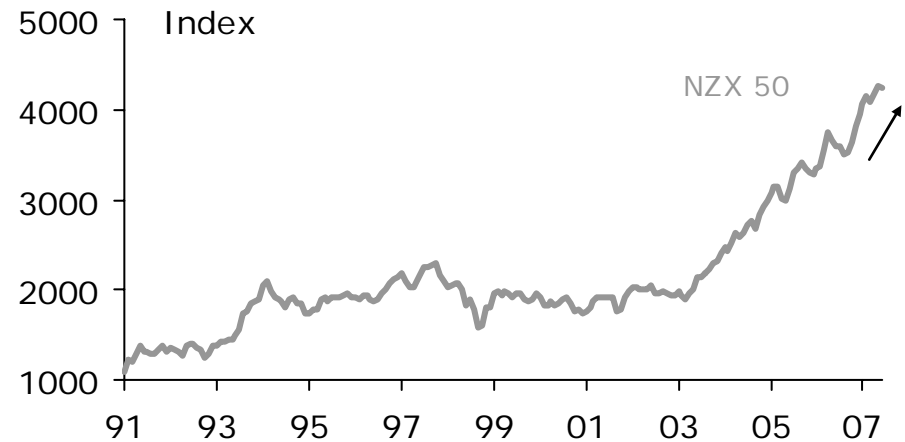
## The housing market experienced its third wind



## Employment was solid

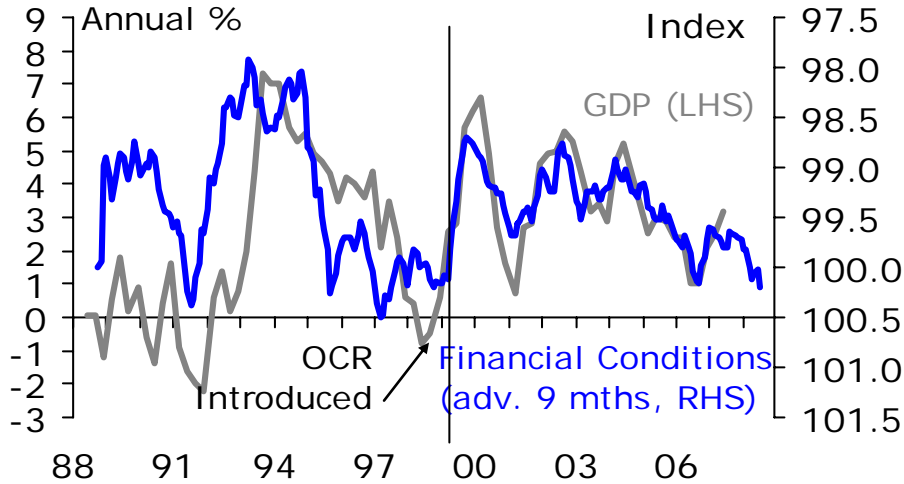


## Equities hit new record highs

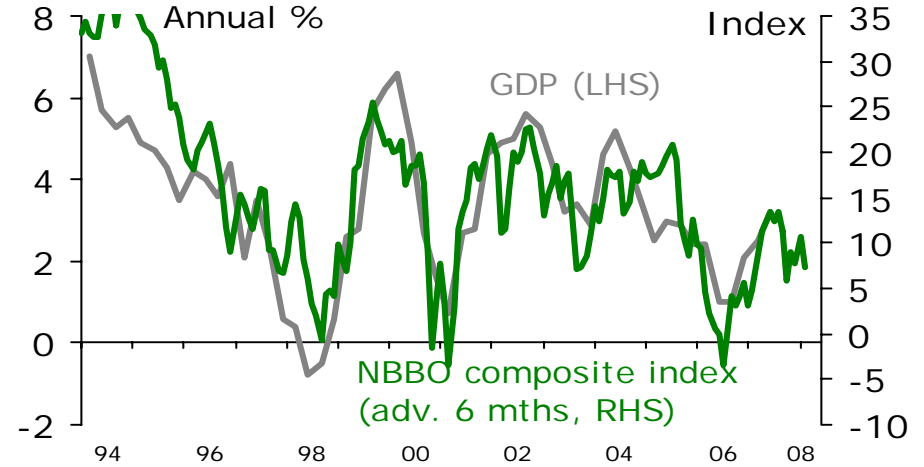


# Headwinds are starting to emerge

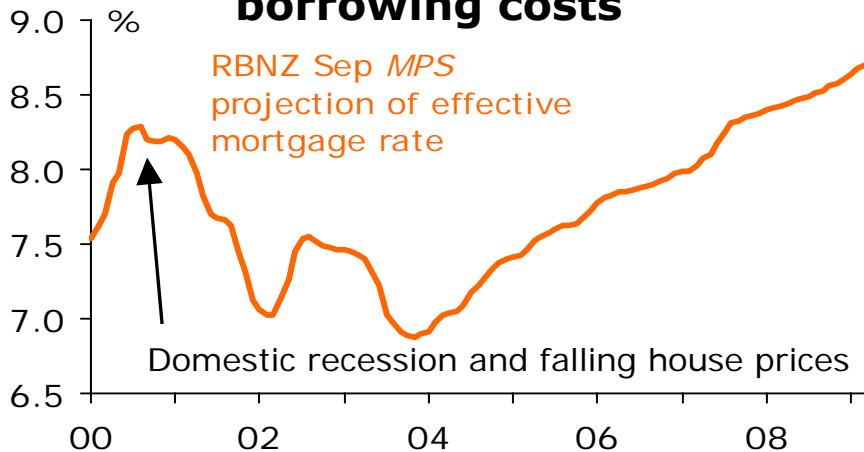
## Financial conditions are tight



## Business confidence has eased



## Borrowers are facing higher borrowing costs

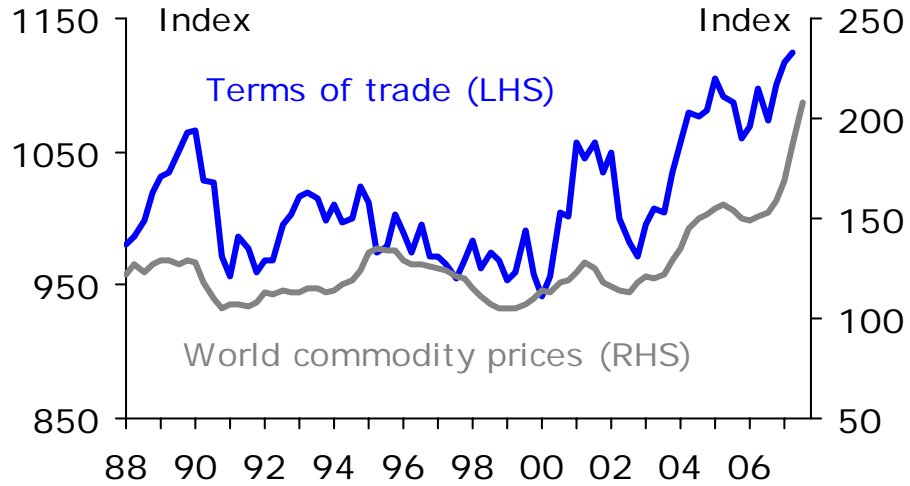


## High NZD will reduce export competitiveness

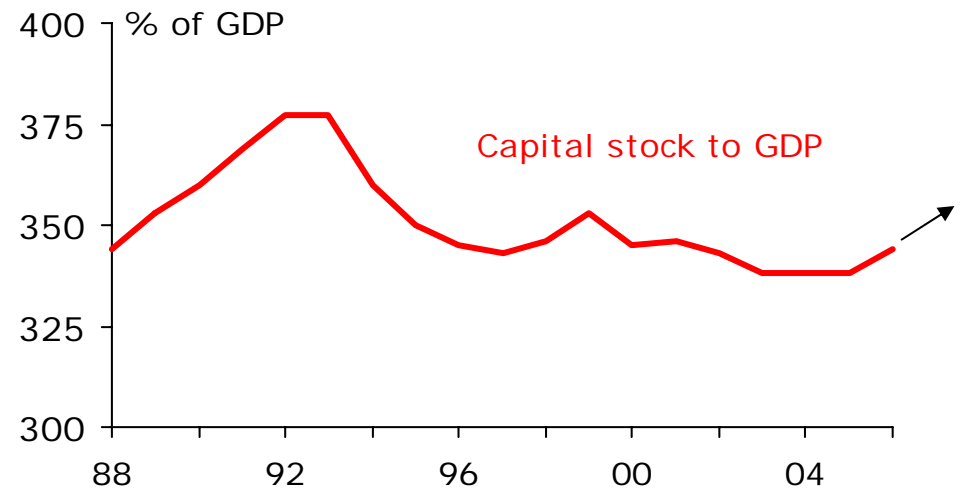


# Some areas continue to do well

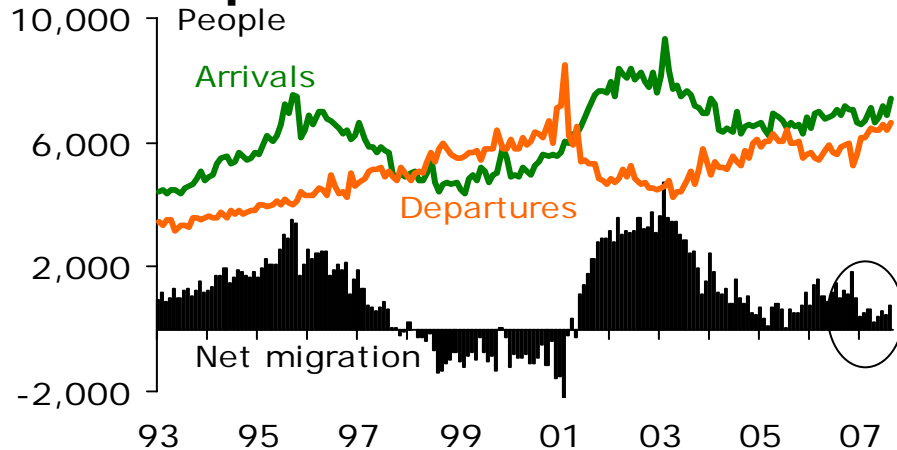
## Terms of trade and commodity prices are elevated



## Catch-up investment pending



## People still want to live in NZ

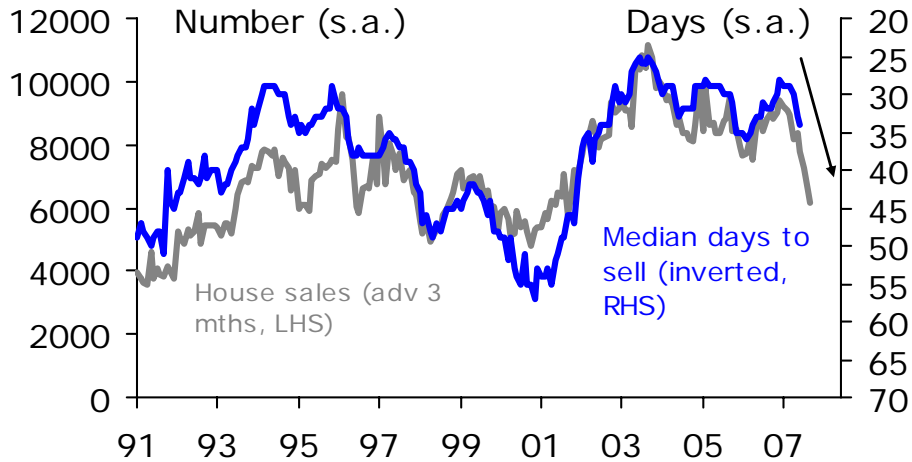


## Everyone still has a job

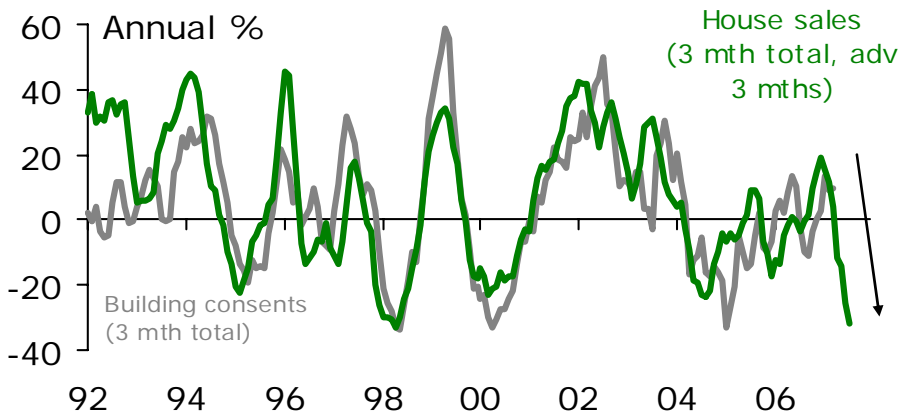


# However, the domestic economy is clearly slowing

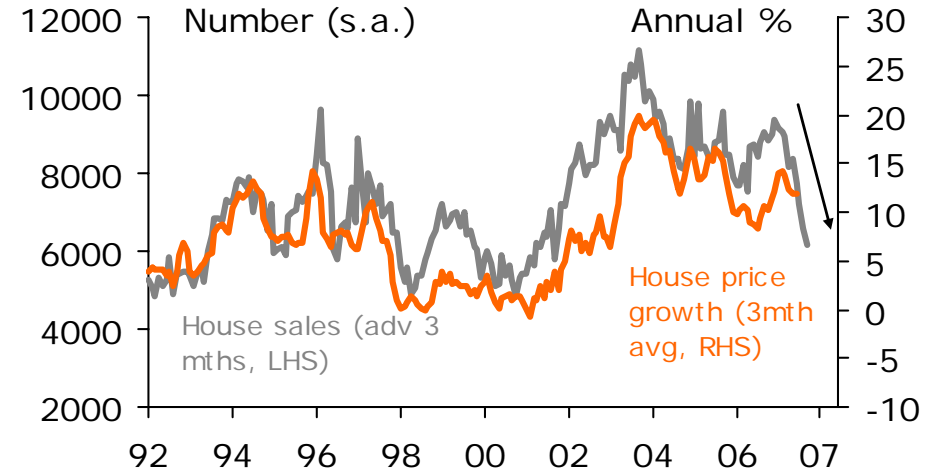
## House sales at six year lows



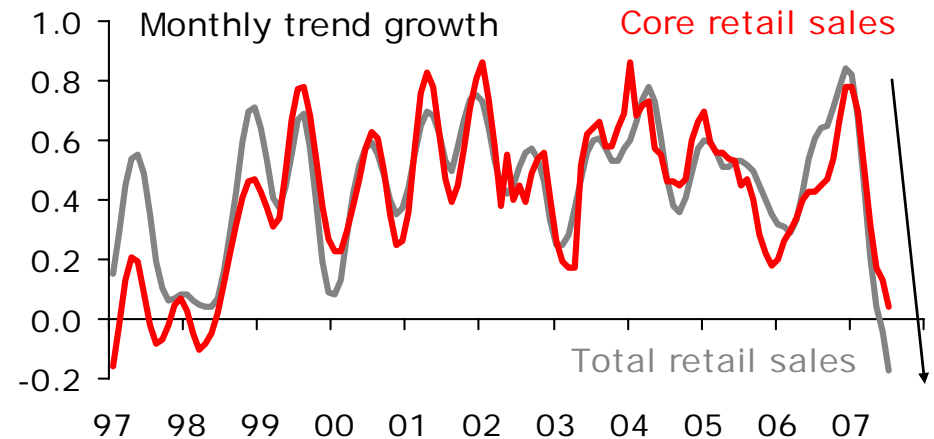
## It portends of a softening in construction activity



## House price growth also looks set to ease

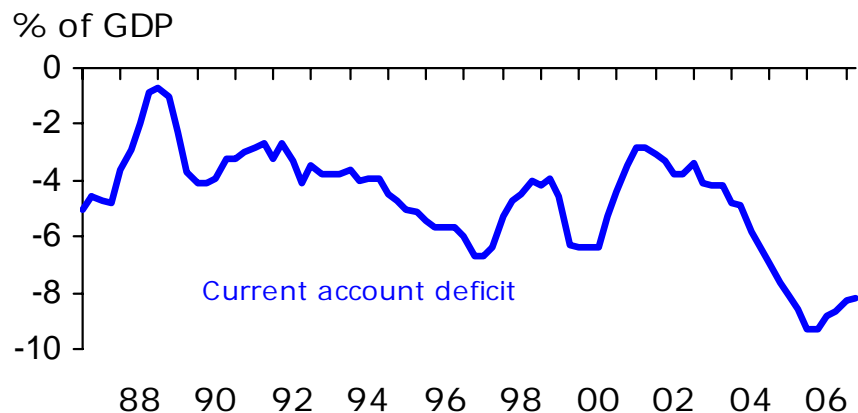


## Consumer spending has also slowed

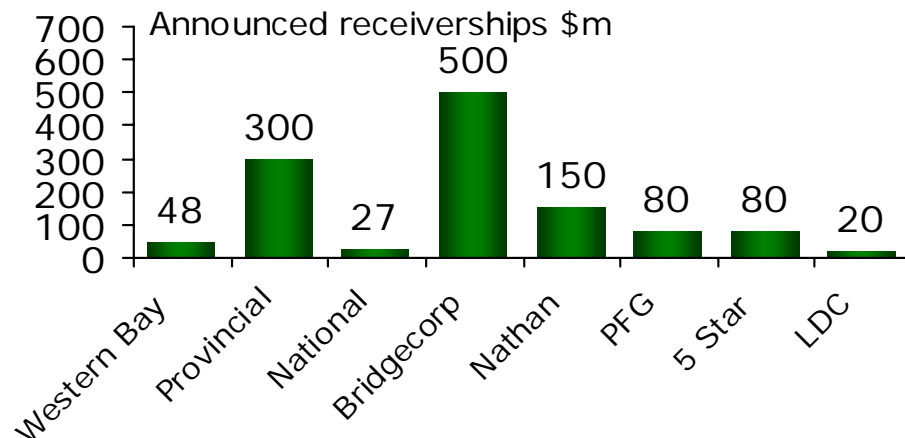


# A turn in the global credit cycle is having an impact

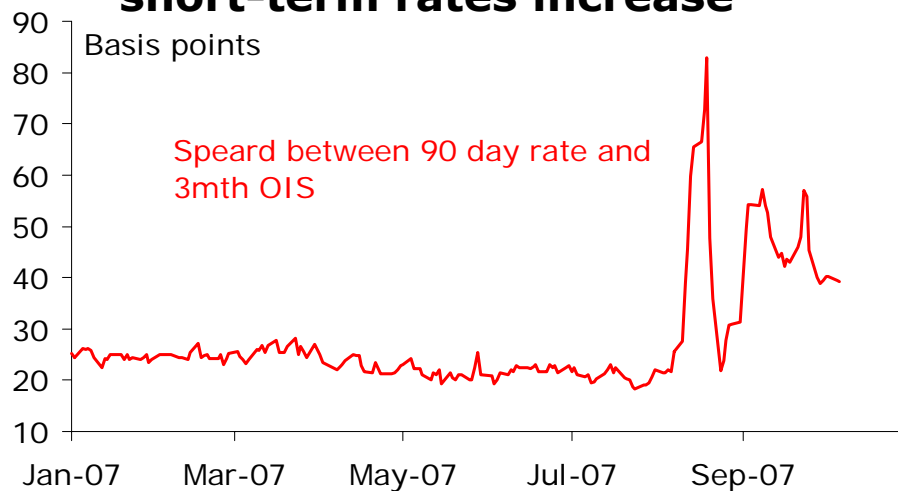
## NZ is very reliant on offshore funding



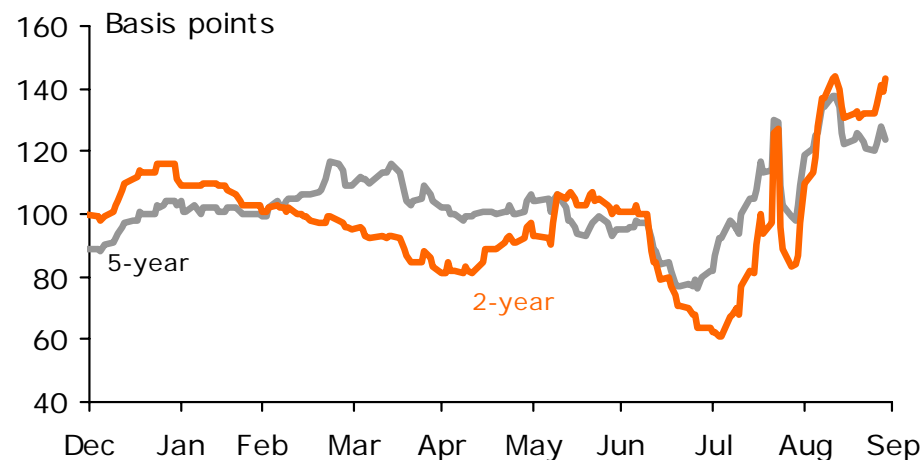
## Non-bank financials are under pressure



## Liquidity troubles have seen short-term rates increase

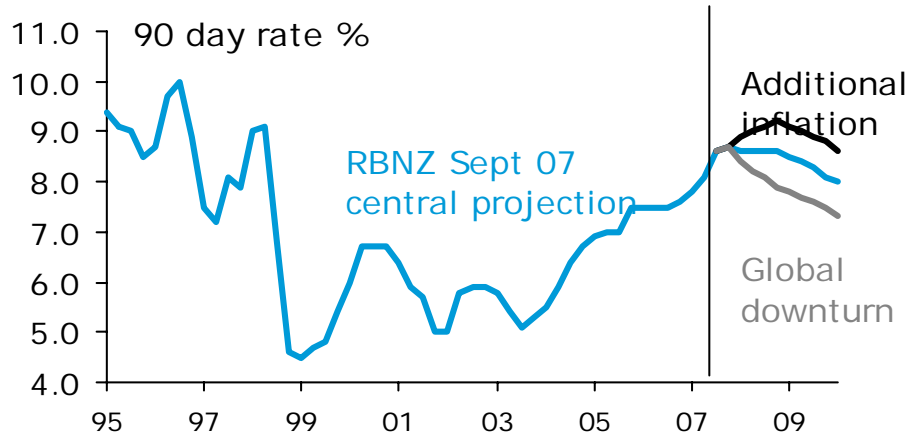


## Swap spreads have widened

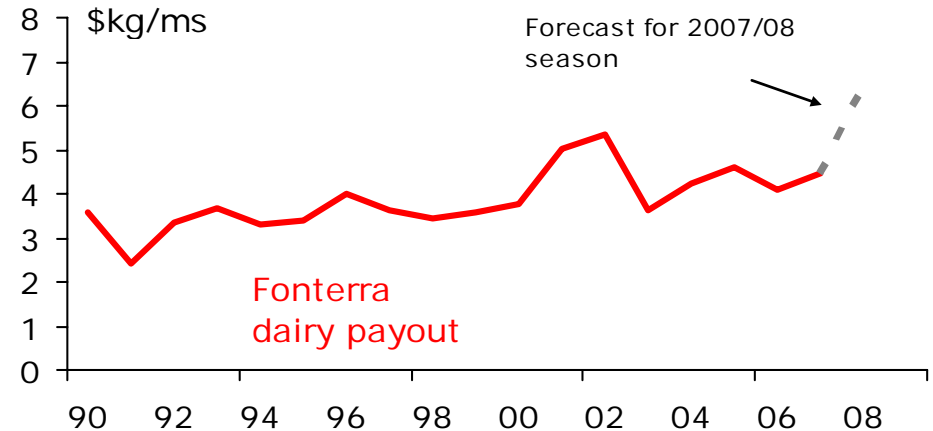


# Monetary policy looks set to remain on hold for a while yet as competing factors are weighed.

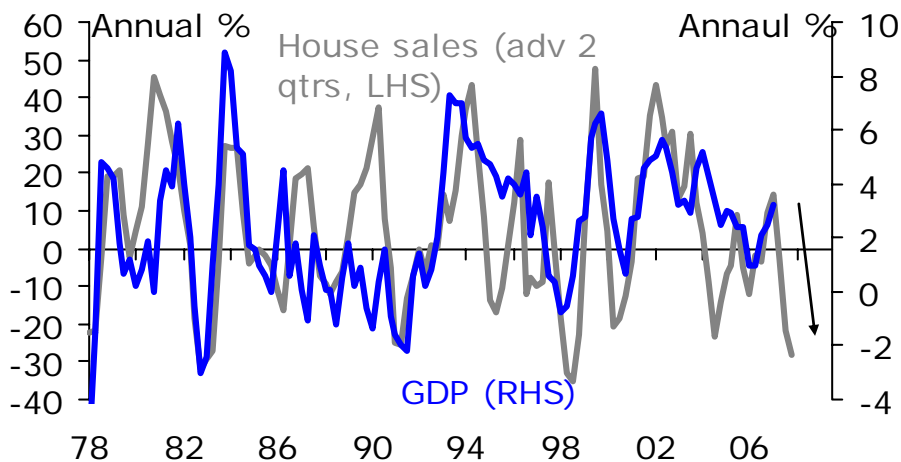
## The RBNZ noted different scenarios in September



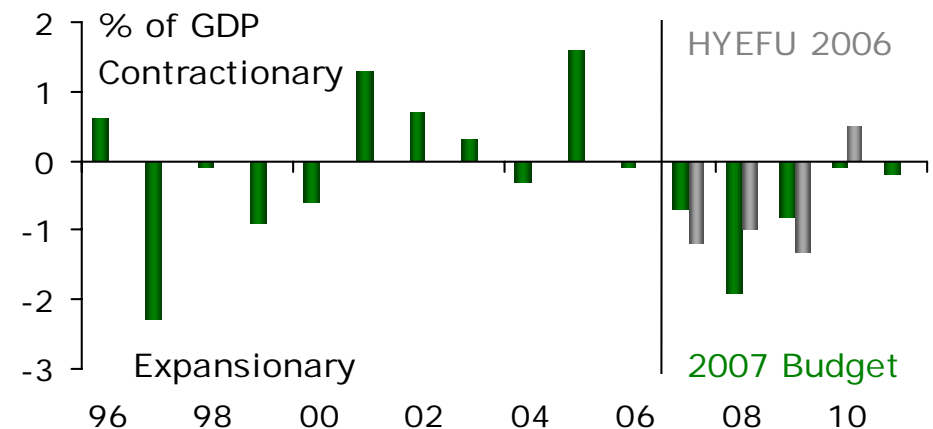
## Surging dairy prices contributed to large payout



## The housing cycle and GDP?

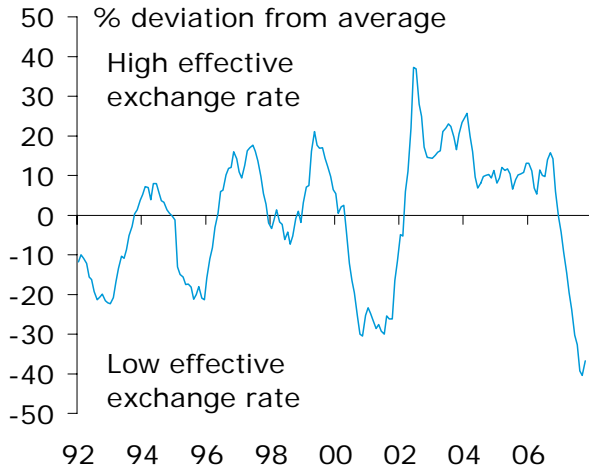


## Fiscal stimulus expected to become more expansionary

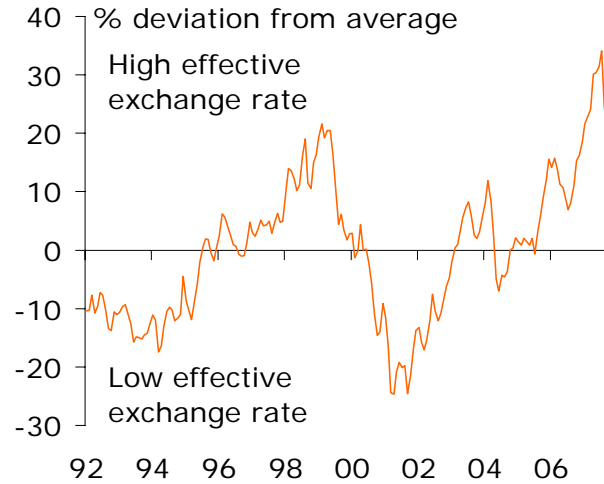


# The currency is having a mixed impact on the export sector. Some are being buffered by strong commodity prices.

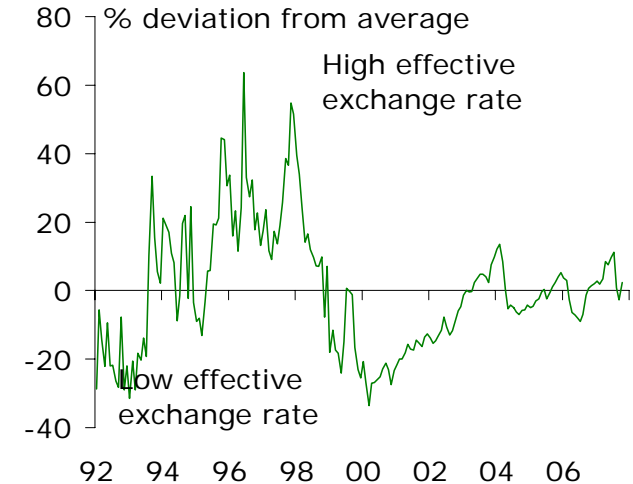
## Dairy ≈18% of exports



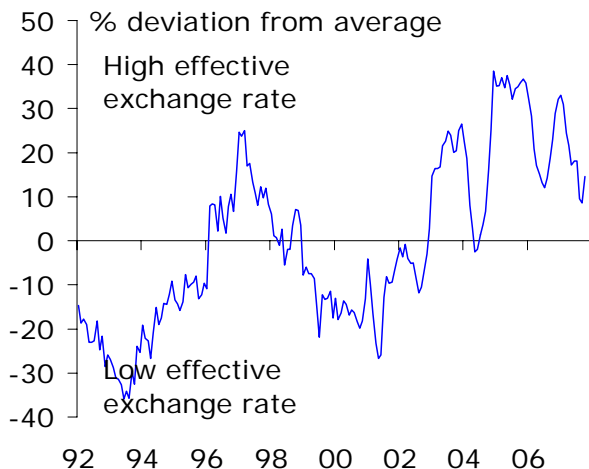
## Meat ≈8% of exports



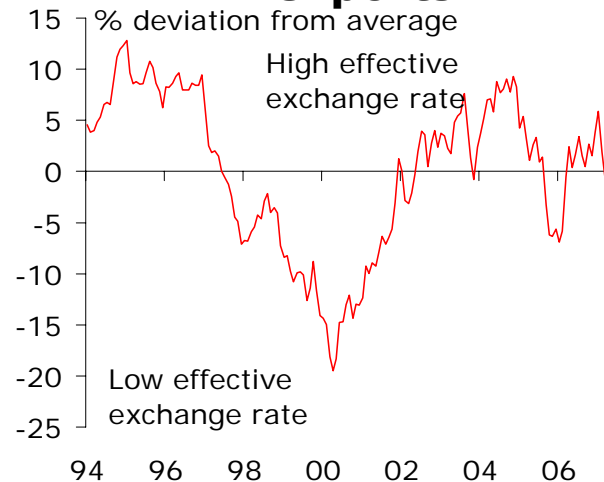
## Seafood ≈3% of exports



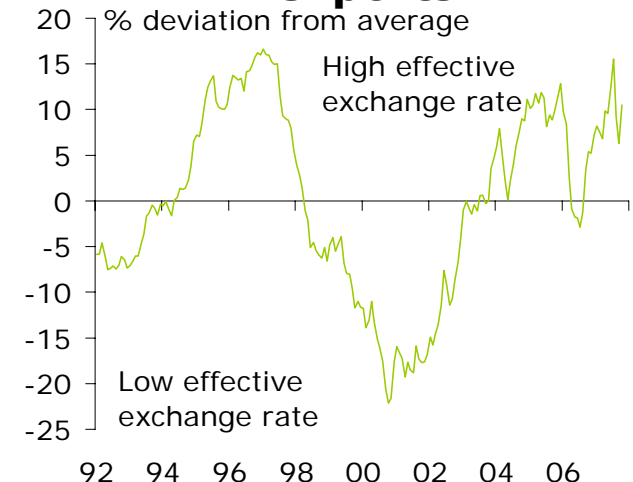
## Forestry ≈10% of exports



## Manufacturing ≈20% of exports



## Services ≈24% of exports



## Summary of forecasts – New Zealand

<b>September Years</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
GDP	1.7	2.7	1.7	2.4	3.5
Inflation	3.5	2.1	2.7	2.6	2.5
Unemployment (Sept qtr, s.a.)	3.8	3.7	4.1	4.3	4.4
Current Account (% GDP)	-9.2	-8.2	-6.8	-6.8	-6.5
90 day bank bill (Sept month)	7.6	8.8	8.0	7.0	7.0
10 year bond rate (Sept month)	5.8	6.2	6.5	6.7	6.4
NZD/USD (Sept month)	0.65	0.72	0.70	0.61	0.59
NZD/AUD (Sept month)	0.87	0.85	0.76	0.77	0.82
AUD/NZD (Sept month)	1.16	1.18	1.31	1.30	1.22
Credit Growth (PSC)	13.2	14.1	9.2	9.1	9.8
- Housing	14.1	13.7	9.5	9.3	10.3
- Business	14.7	14.6	9.1	9.1	9.4
- Personal	4.3	5.6	5.5	7.3	8.0

September years. Interest rates and exchange rates are for September month end

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The material in this presentation is general background information about the Bank's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

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