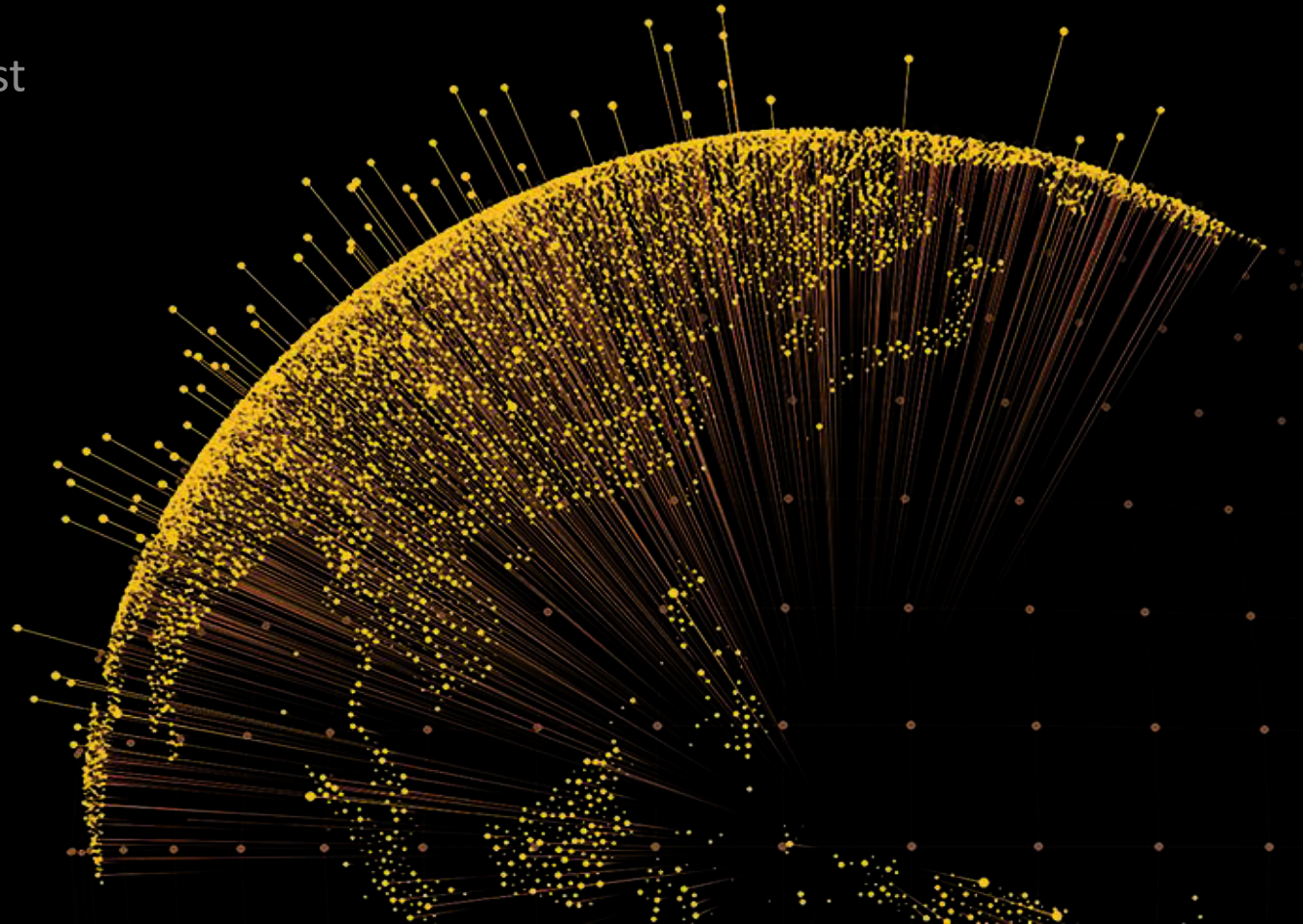


Coming up Trumps?

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Topics

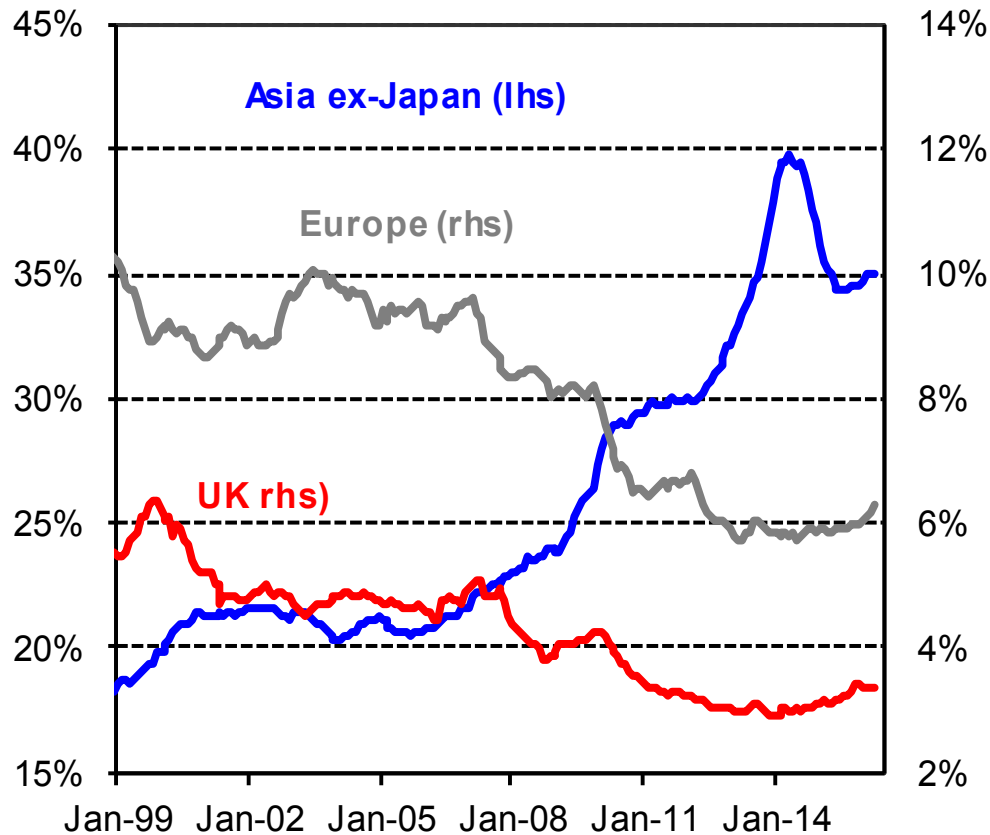
- Global outlook
- Housing, construction
- NZ overview
- Inflation, interest rates, NZD

Brexit: opted out



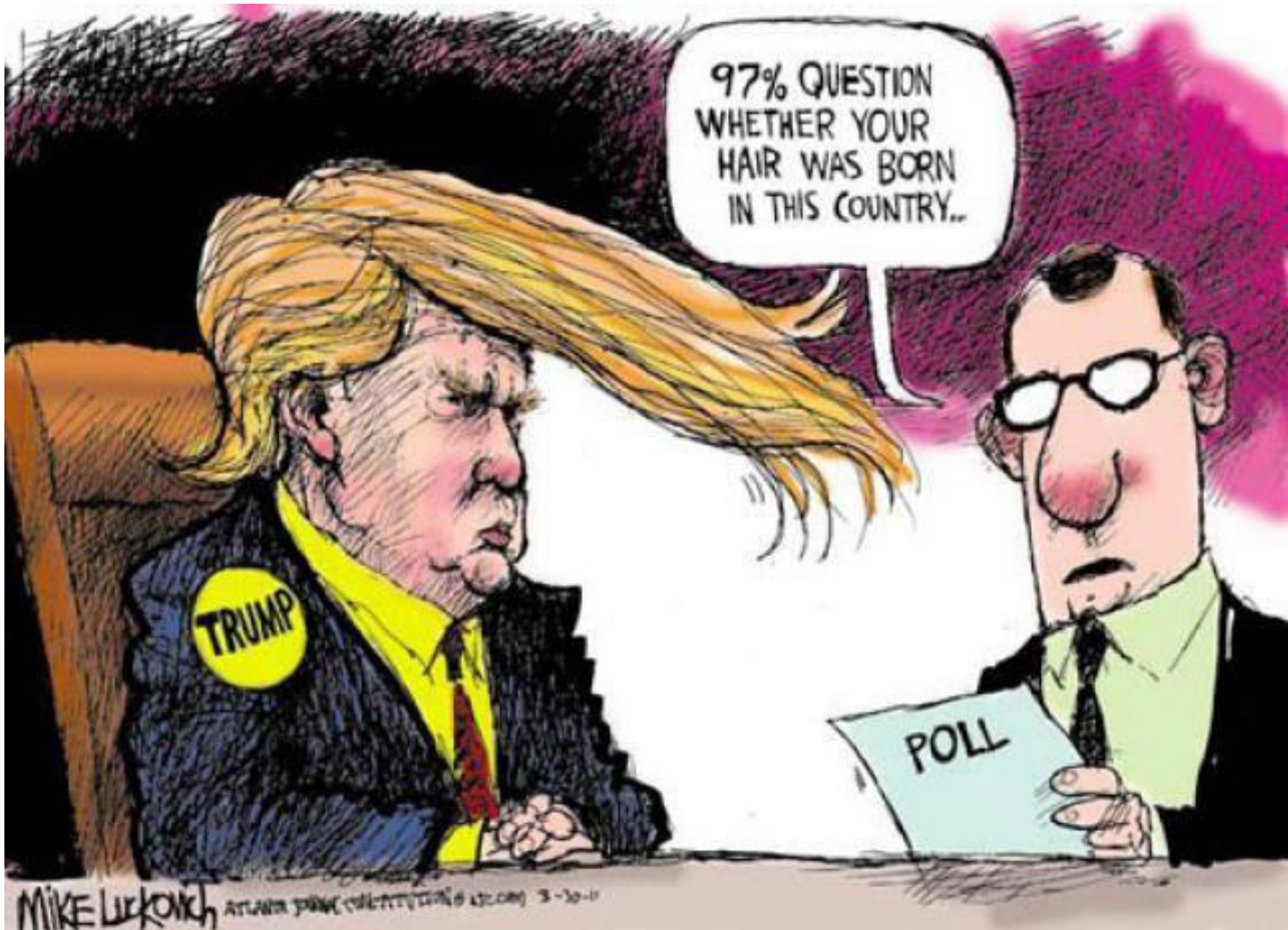
Brexit impacts on NZ

SHARE OF NZ GOODS EXPORTS



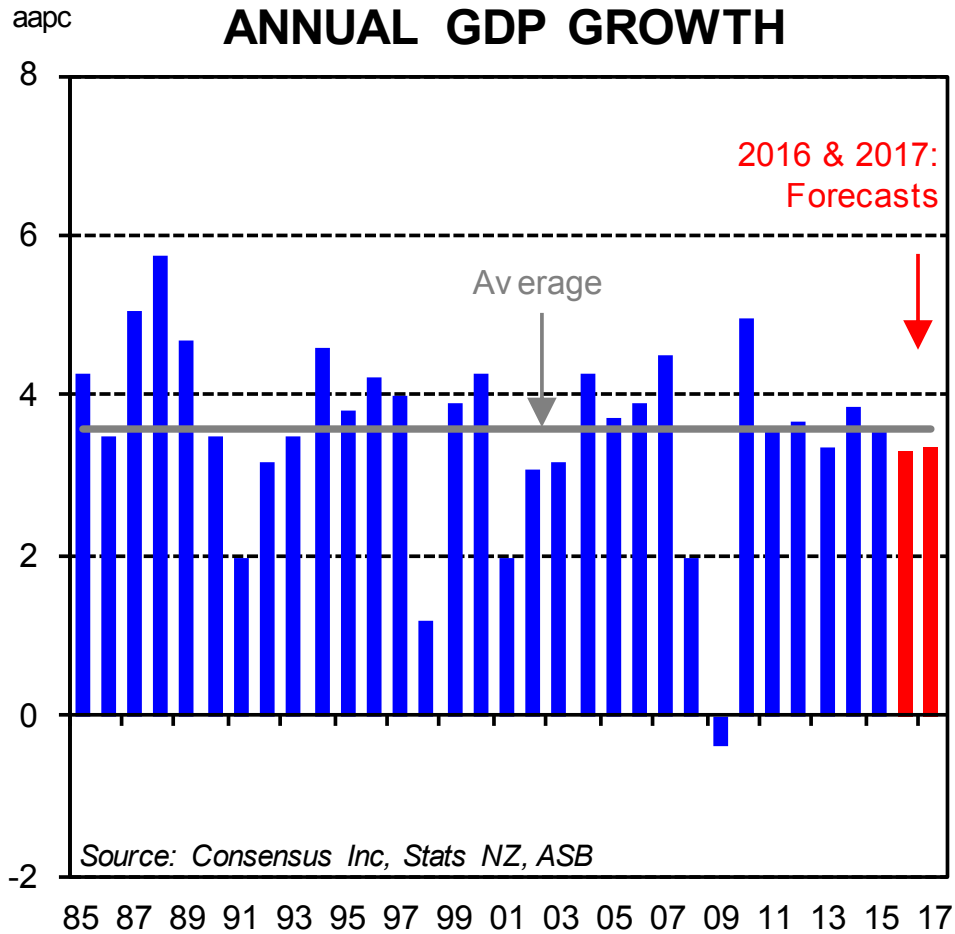
- 5% of NZ's total trade exports.
- Meat, tourism and wine the main export exposures.
- Lost competitiveness on exchange rate.
- Slower UK growth as Brexit decision starts to impact investment and employment decisions.

Global picture

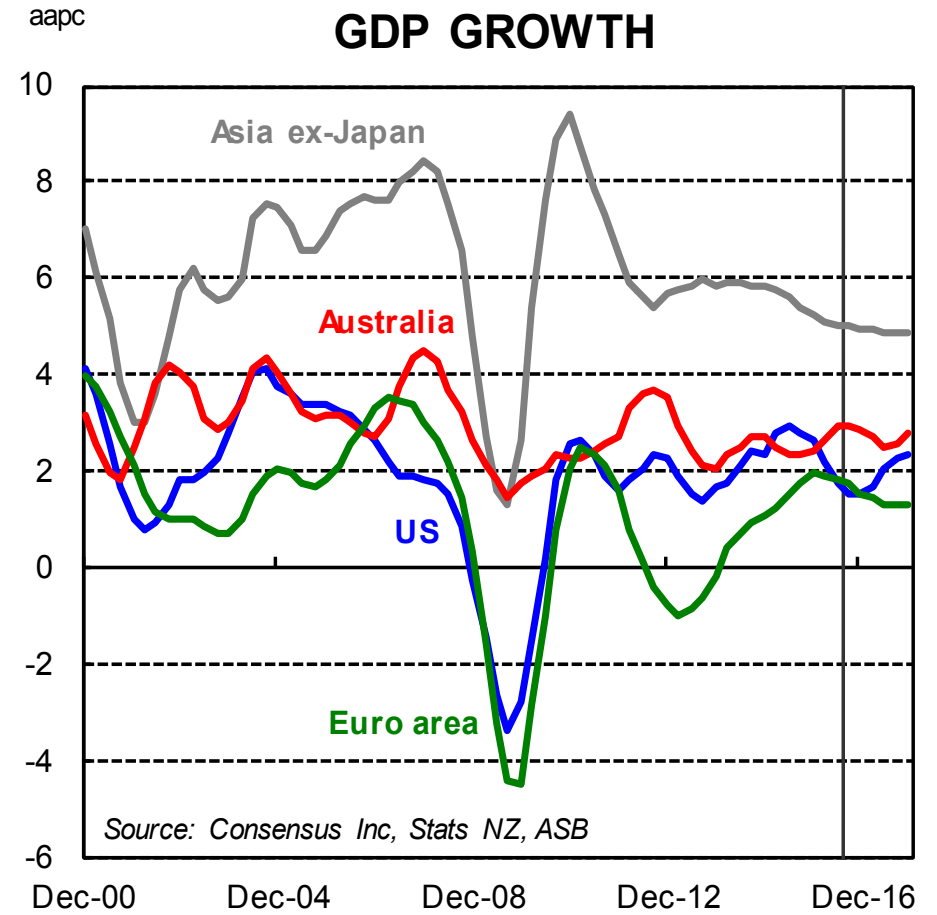


Broad global outlook

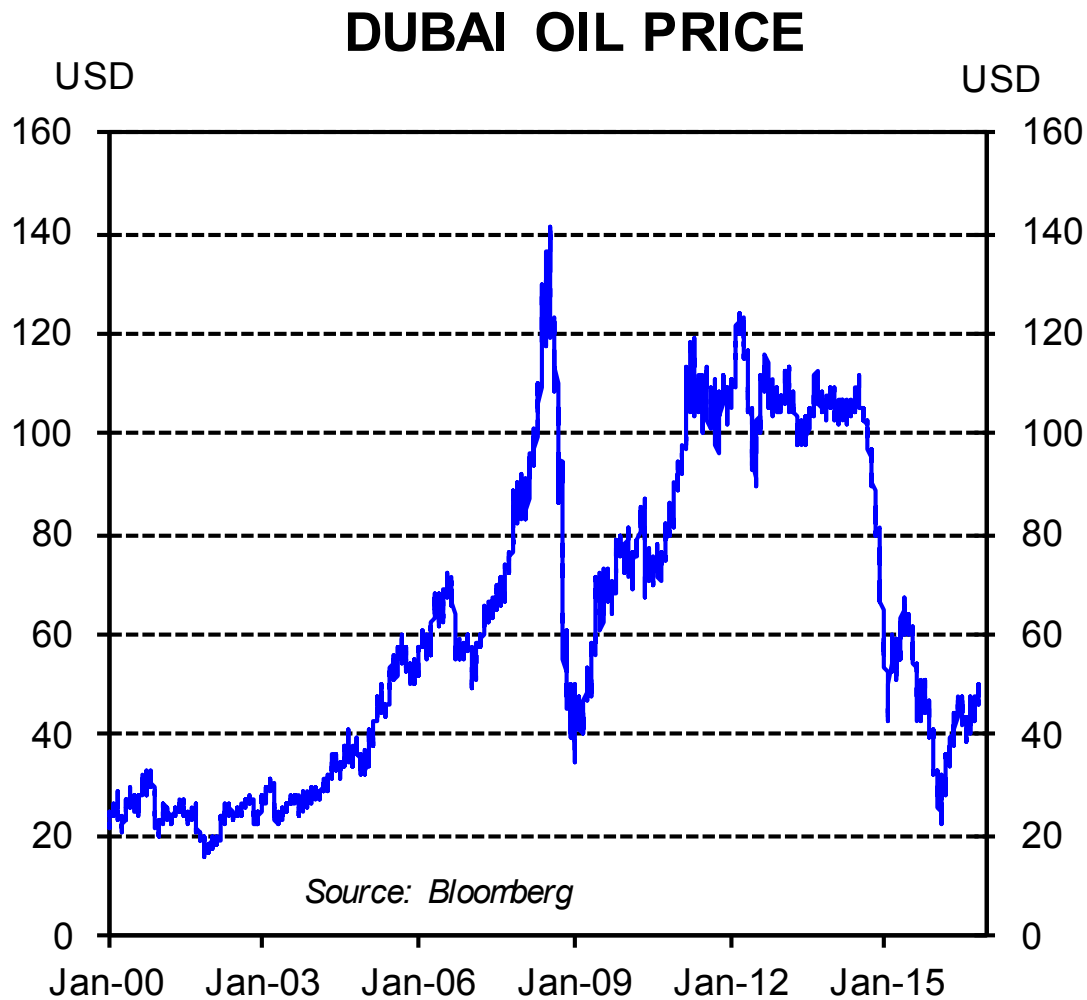
NZ TRADING PARTNER ANNUAL GDP GROWTH



NZ TRADING PARTNER GDP GROWTH

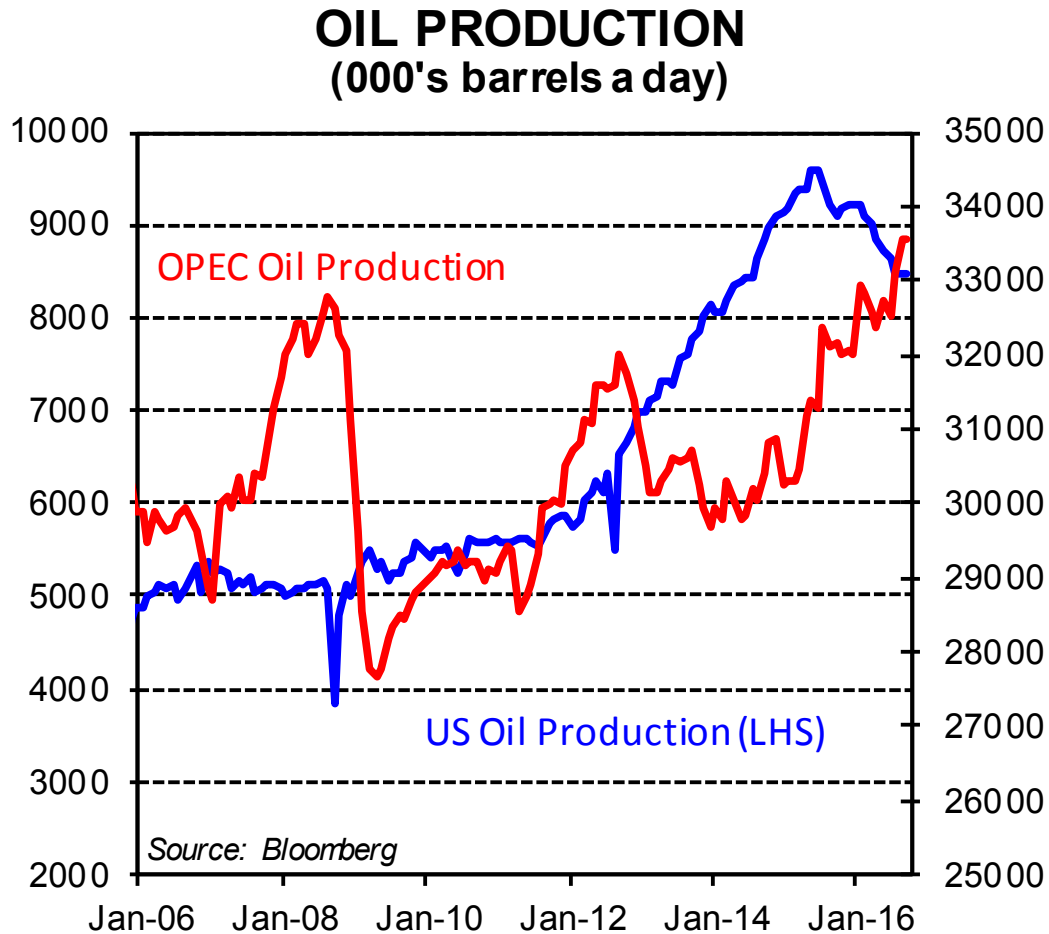


Oil down (and up)



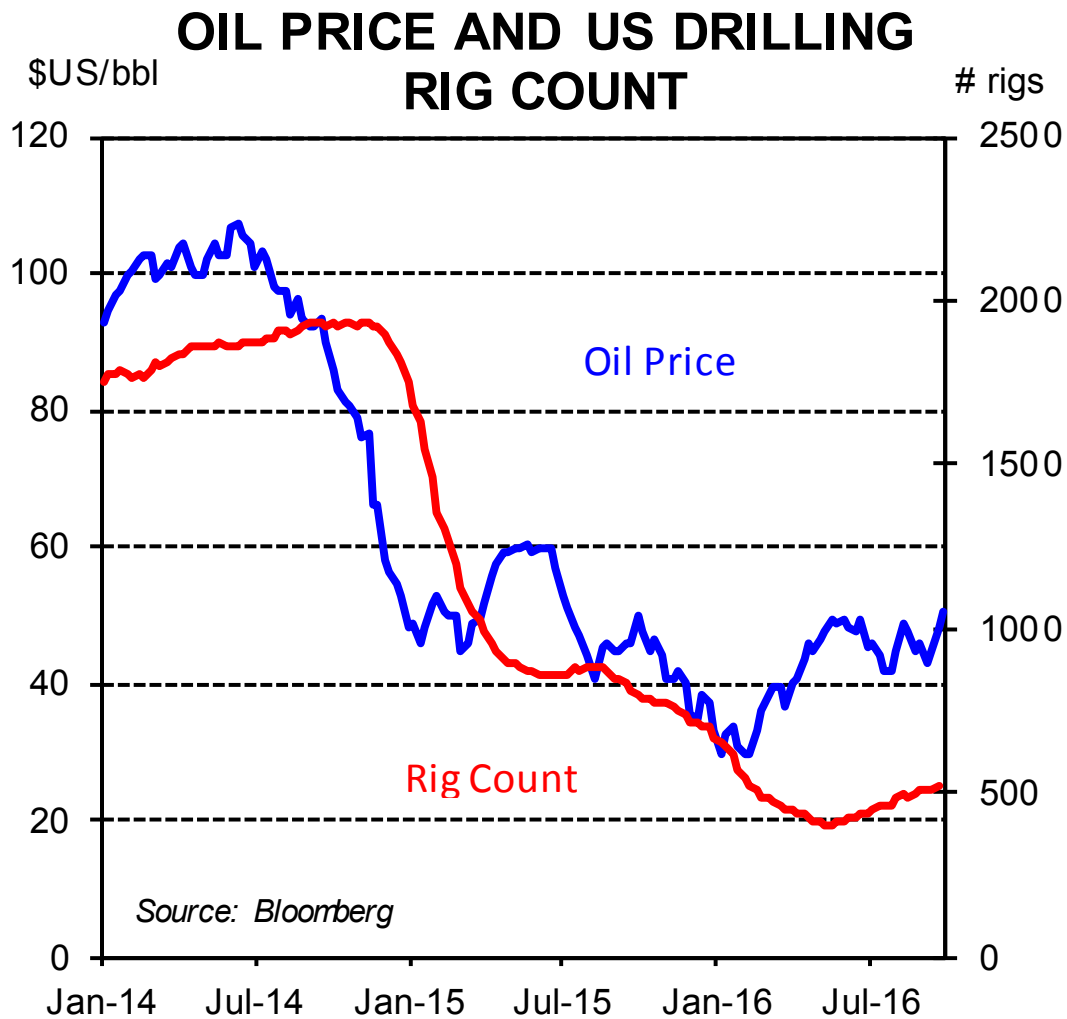
- Oil prices remain subdued:
 - Concerns over global/ Chinese economic growth
 - Supply still strong
 - Storage levels high
- US the swing producer: exploration lifts as oil approaches \$US 50/barrel.
- In time, lower prices will support global growth.

Widespread oil production lifts



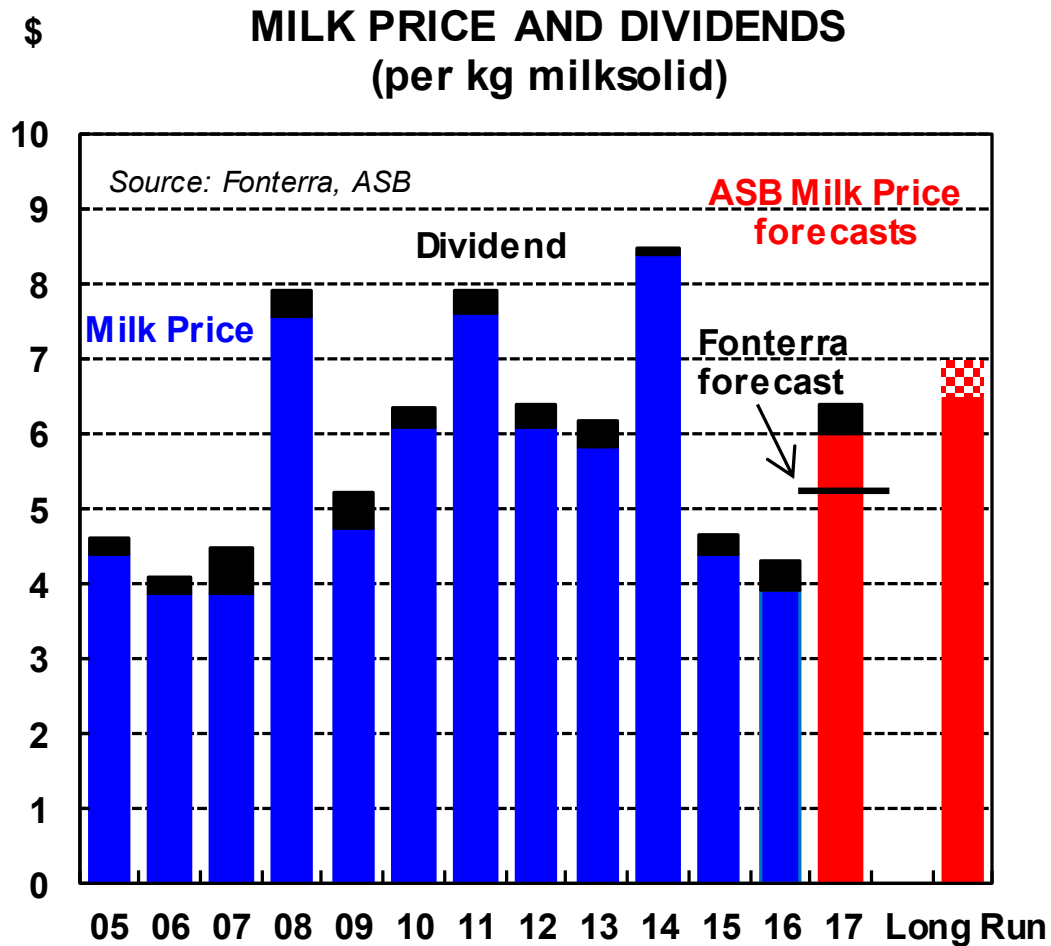
- OPEC accounts for around 1/3 of global production.
- Removal of sanctions on Iran, disagreement among members have seen production continue to lift.
- US produces around 10% of global oil.
- US production has fallen recently in response to low oil prices.
- But remains in the wings.

Oil price lifts limited



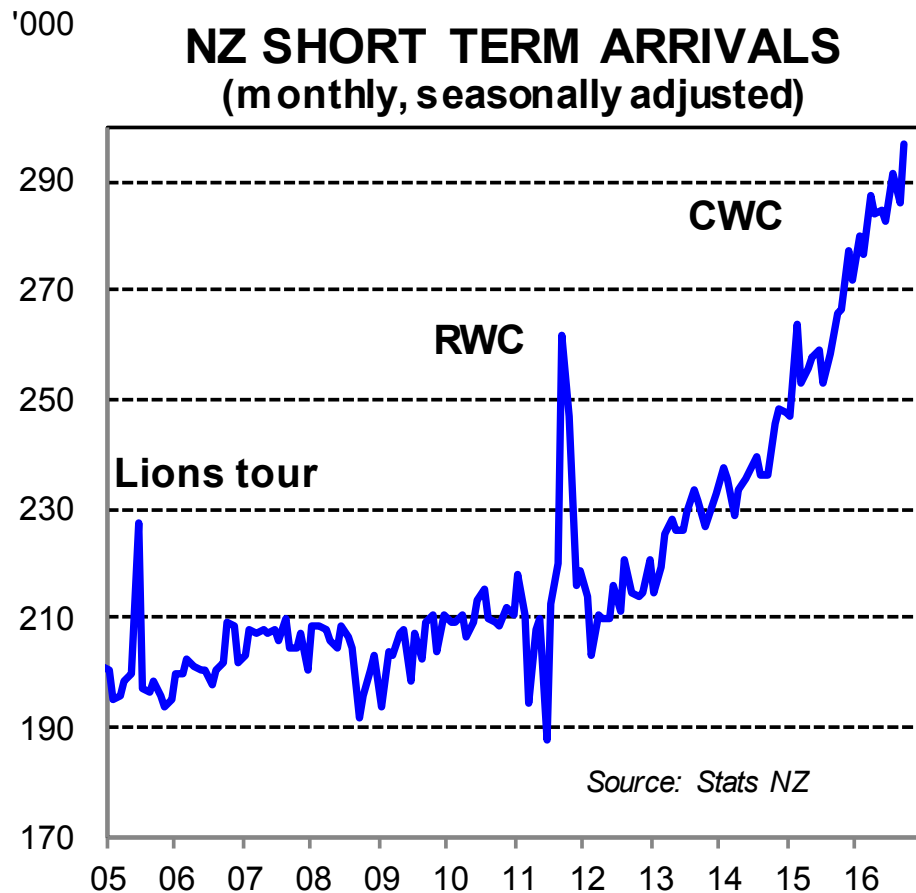
- US drilling exploration lifting as oil prices recover to ~\$50US/bbl.
- Leads to more production ~ 6 months.
- And constrains prices.
- Makes a dramatic recovery in oil prices difficult.

Milk price forecast



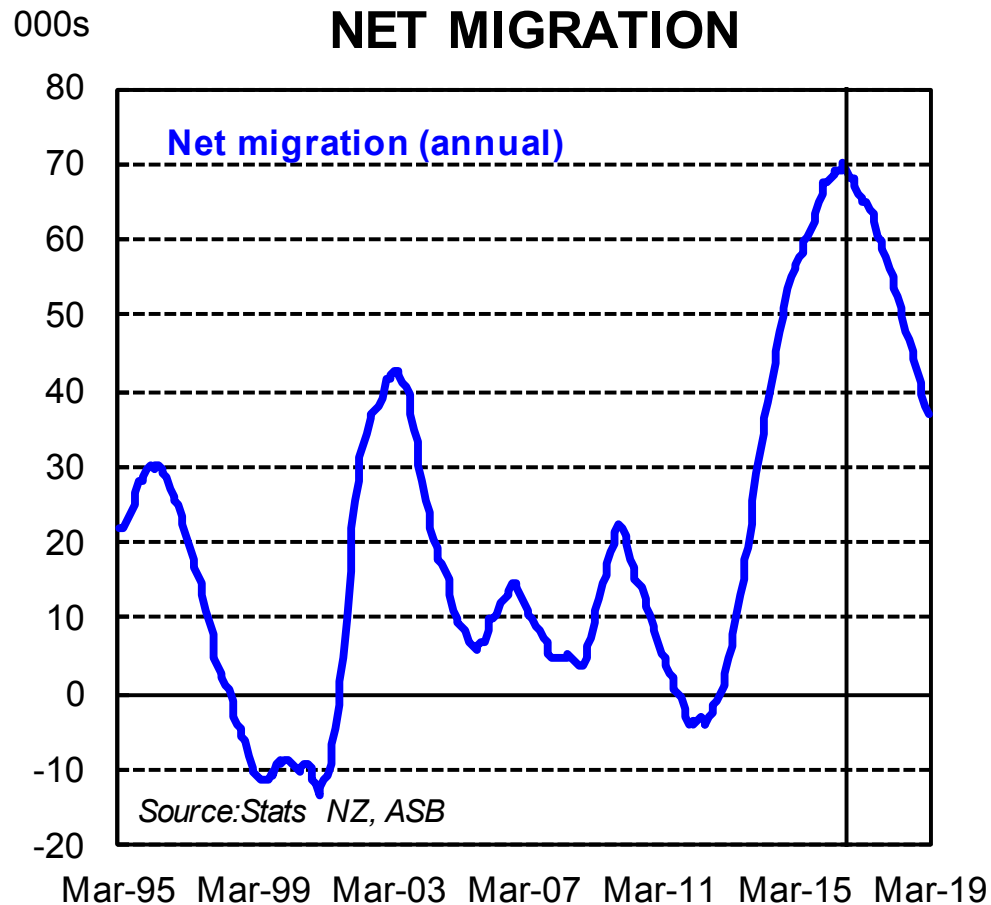
- Current season approx. \$6/kg
 - NZD rate better.
 - But contingent also on sharply firmer USD prices over NZ spring.
- Fonterra revised up its forecast to \$5.25/kg from the initial \$4.25/kg.

Tourism booming



- 2015 spend yoy ↑ \$2.3bn, 31%
 - Visitors ↑ 14%
 - 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

Strong population growth through migration



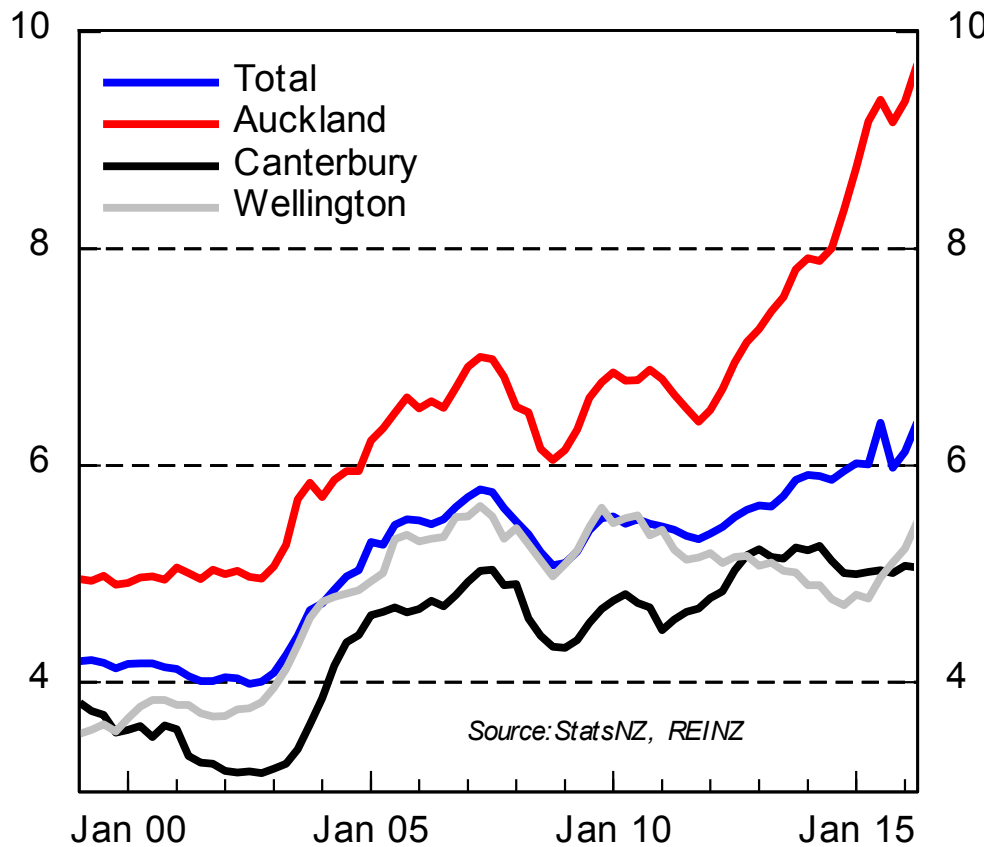
- Net migration at record highs.
- Fall in permanent departures while Australian job opportunities were muted.
- Increased permanent arrivals, returning NZer's from Australia and skill shortages attracting foreign labour.
- Students (Indian and Chinese).
- Moderation expected, as Aust vs. NZ prospects eventually shift, student flows become more two-way.

Housing, construction



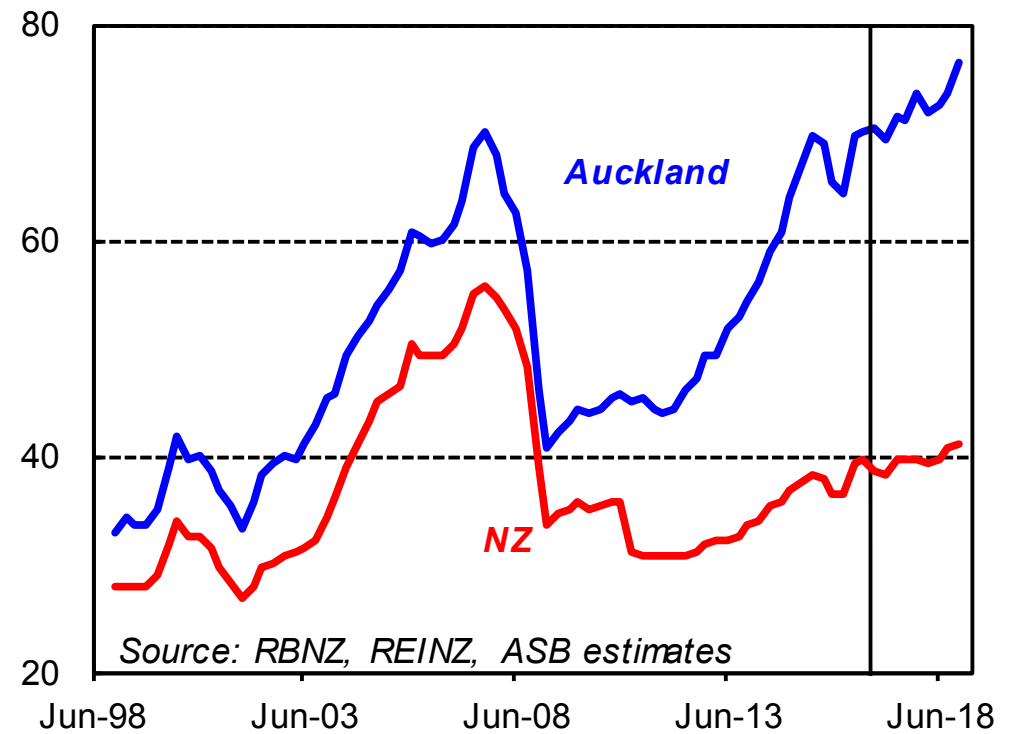
LVRs: Auckland house prices stretched

HOUSE PRICE TO INCOME



MORTGAGE REPAYMENTS OF A FIRST HOME BUYER

% H/H INCOME
(25 year, 20% deposit)



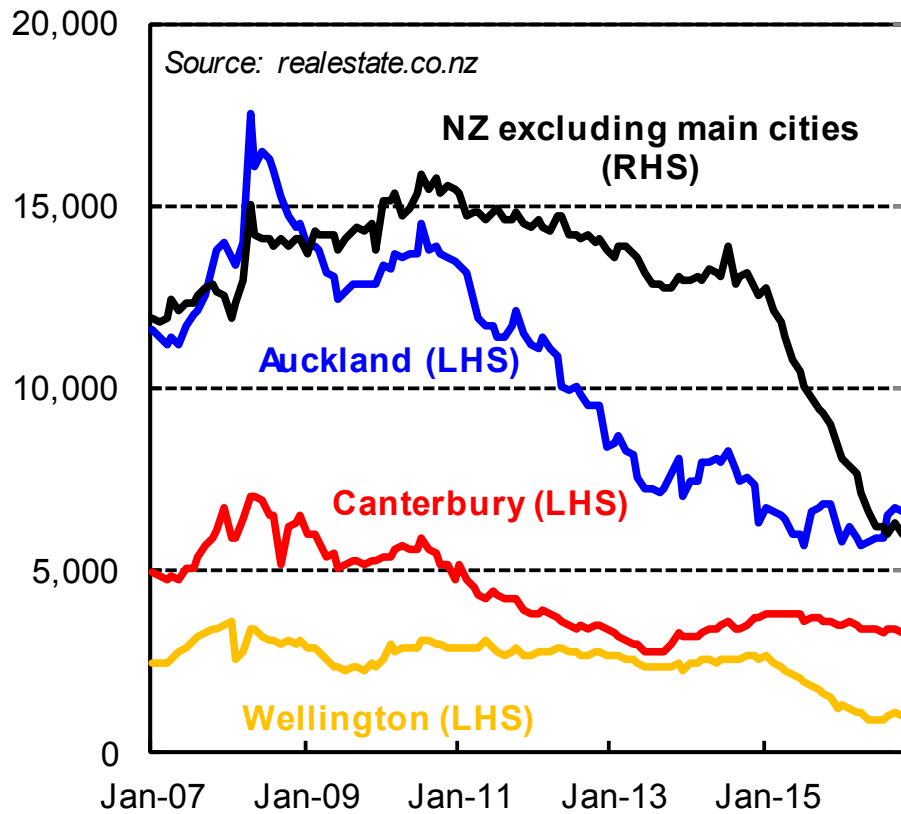
New housing restrictions



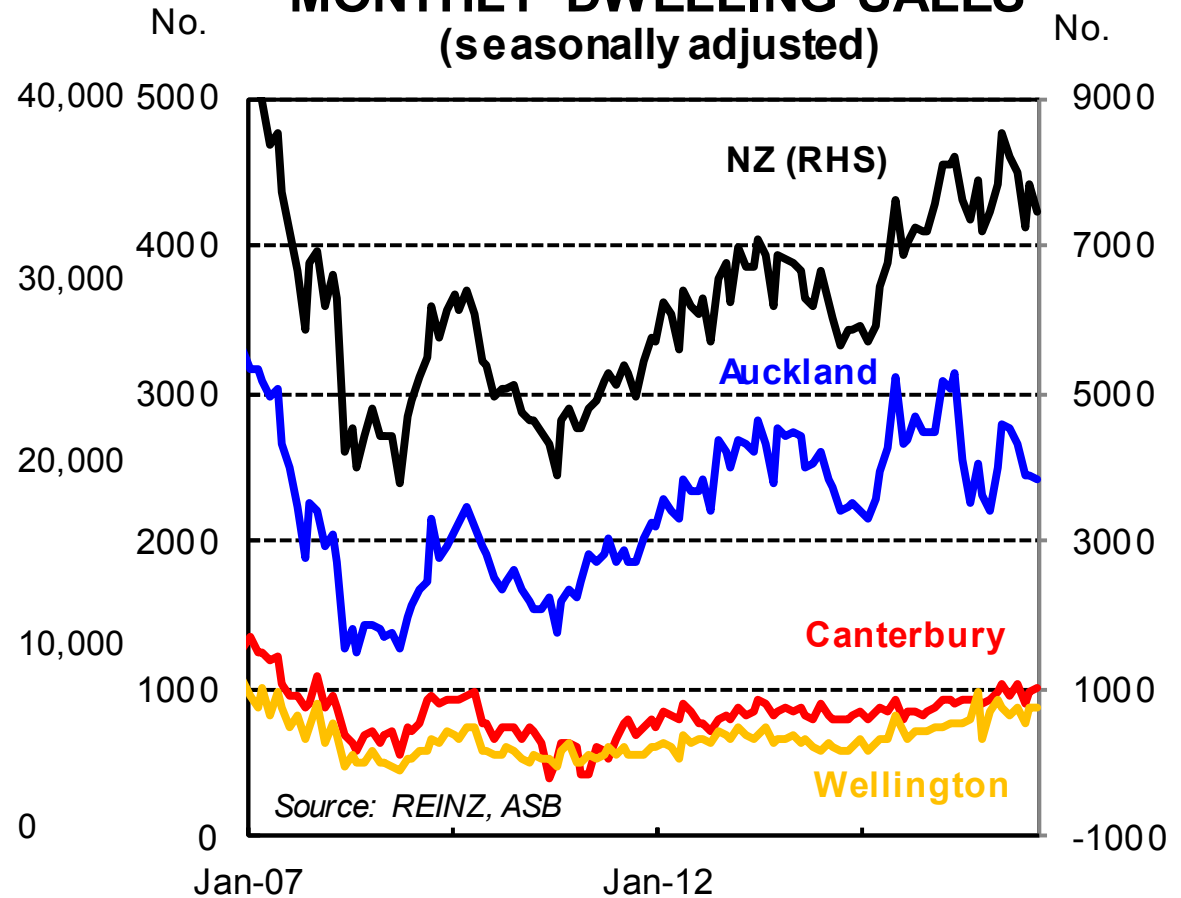
- 3rd round of LVR restrictions started on 1 Oct.
- 40% LVR for investors.
- 20% LVR for owner-occupiers (for all but 10% such loans).
- But some exemptions:
 - New builds purchased from developer (<6 months old).
 - Remediation or to comply with new rental property standards.
 - O-Os using HNZ Welcome Home Loan Scheme.

Regional house listings, sales

TOTAL INVENTORY

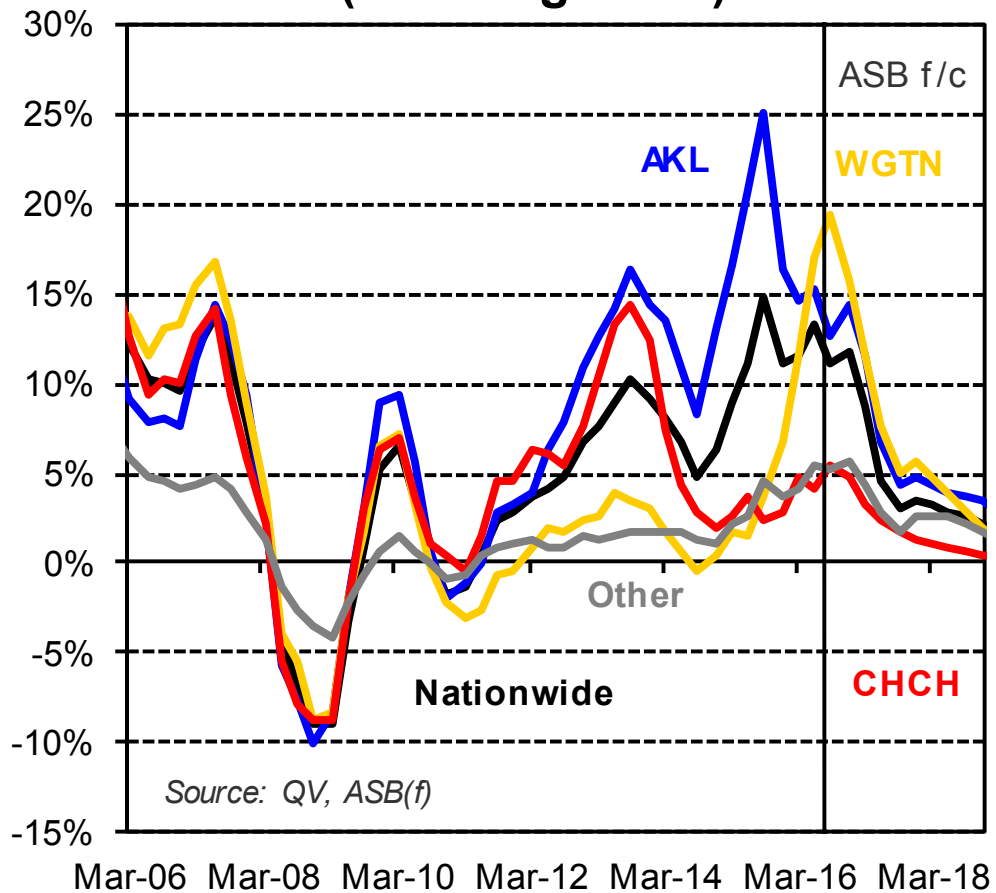


MONTHLY DWELLING SALES (seasonally adjusted)



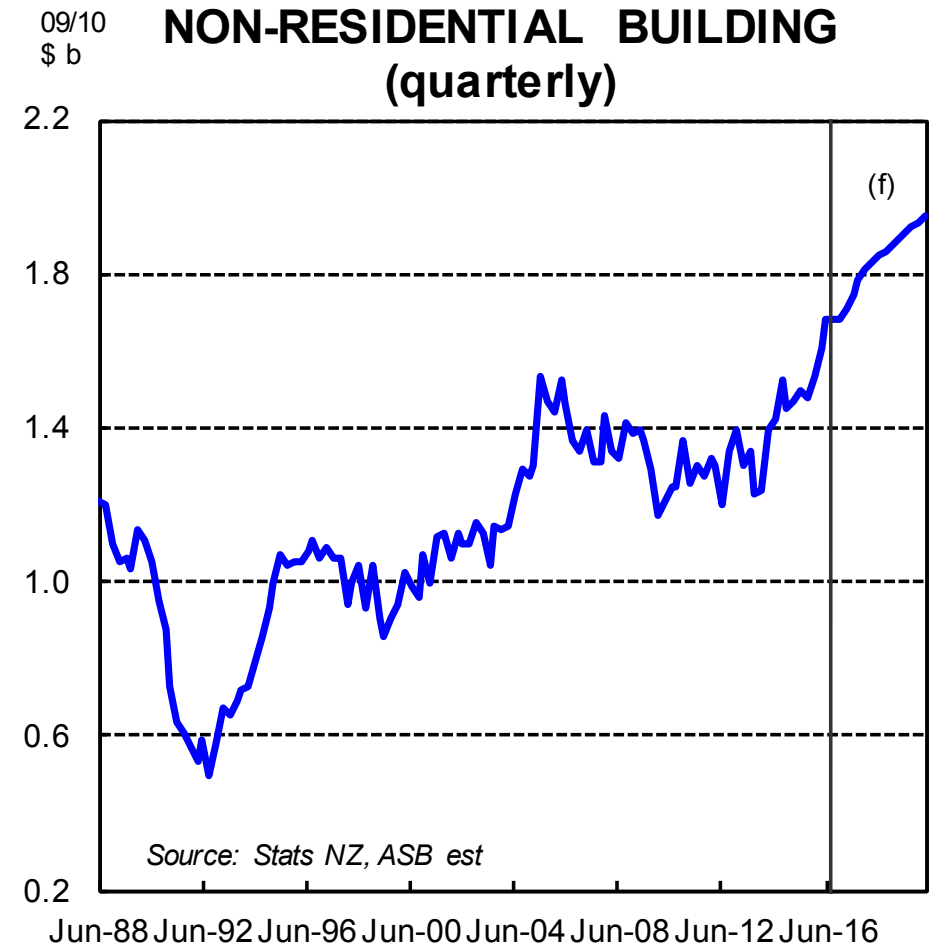
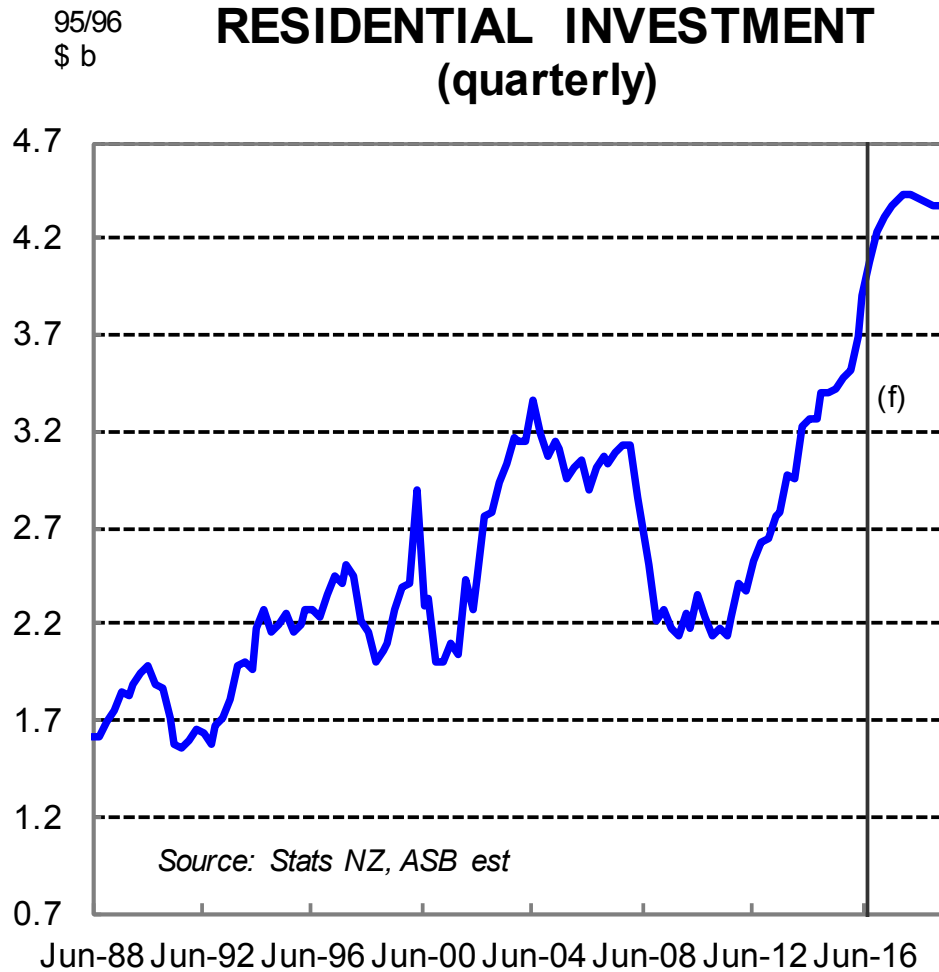
Housing market

REGIONAL HOUSE PRICE FORECASTS (annual growth)



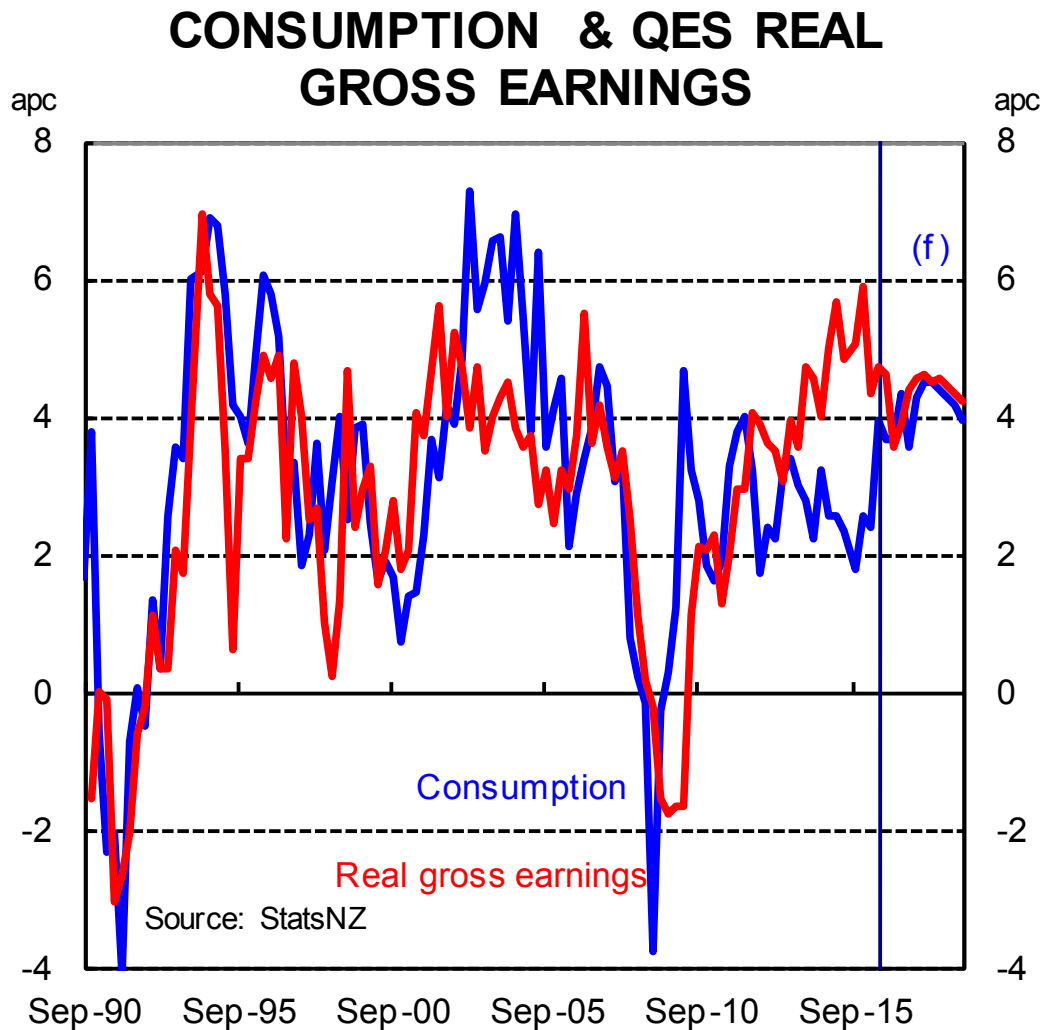
- Impact from Govt and RBNZ investor restrictions wore off in Auckland by March 2016.
- Auckland 'halo' effect impacting rest of NZ.
- House price growth picking up in many regions.
- Wellington very strong.
- New restrictions: flat/falling prices in late 2016, bounce in 2017H1.

Building outlook



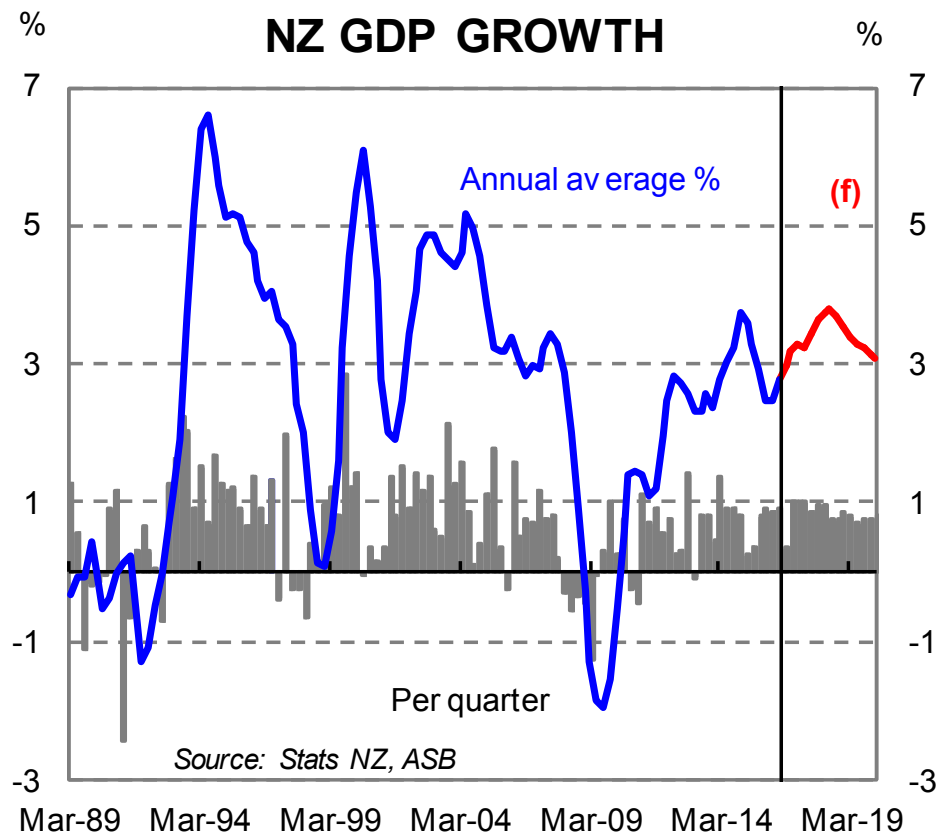
NZ snapshot

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.

Growth moderated in 2015, back up in 2016-17

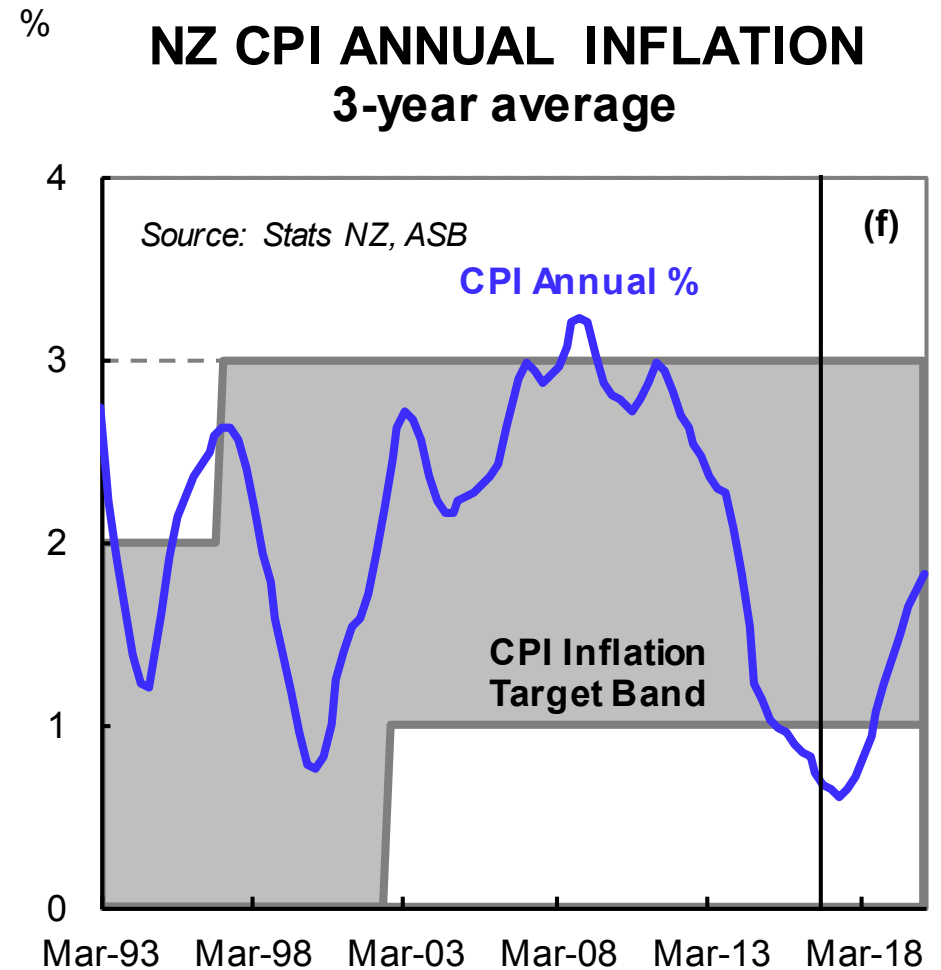
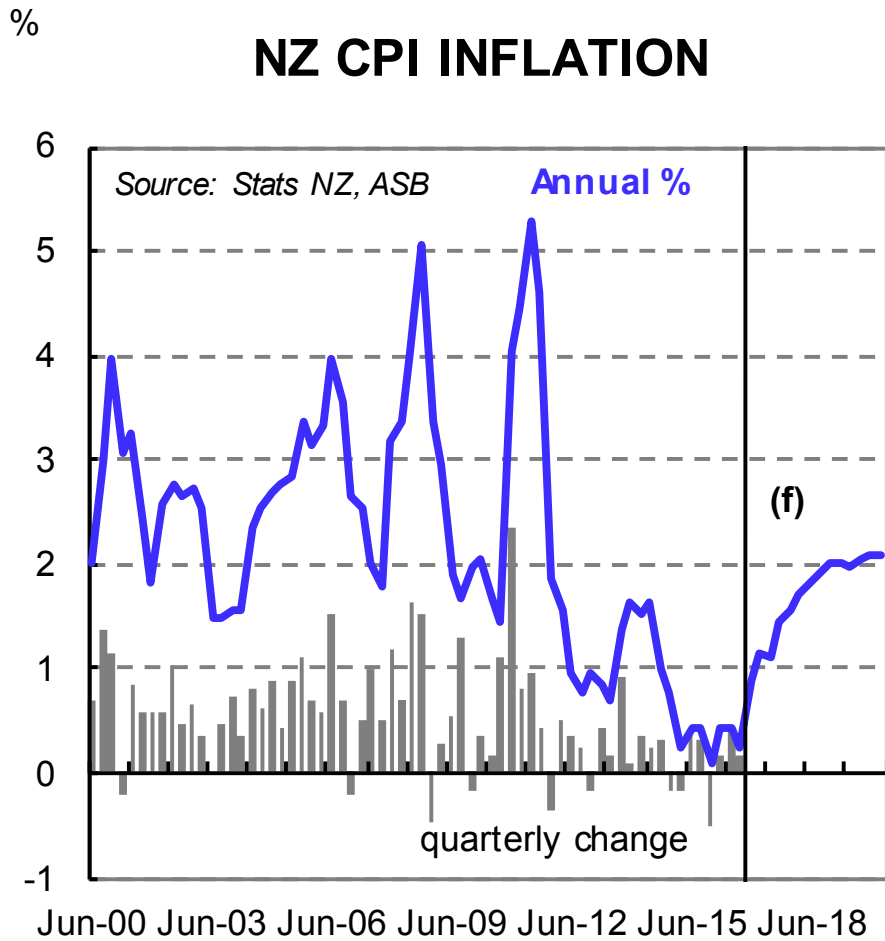


- Growth slowed in 2015. Weaker dairy incomes and production and flattening in construction.
- Low interest rates and past fall in NZD will support recovery in growth over 2016.
- Beyond dairy, export outlook is promising.
- Population and income growth to remain key supports of NZ economy.

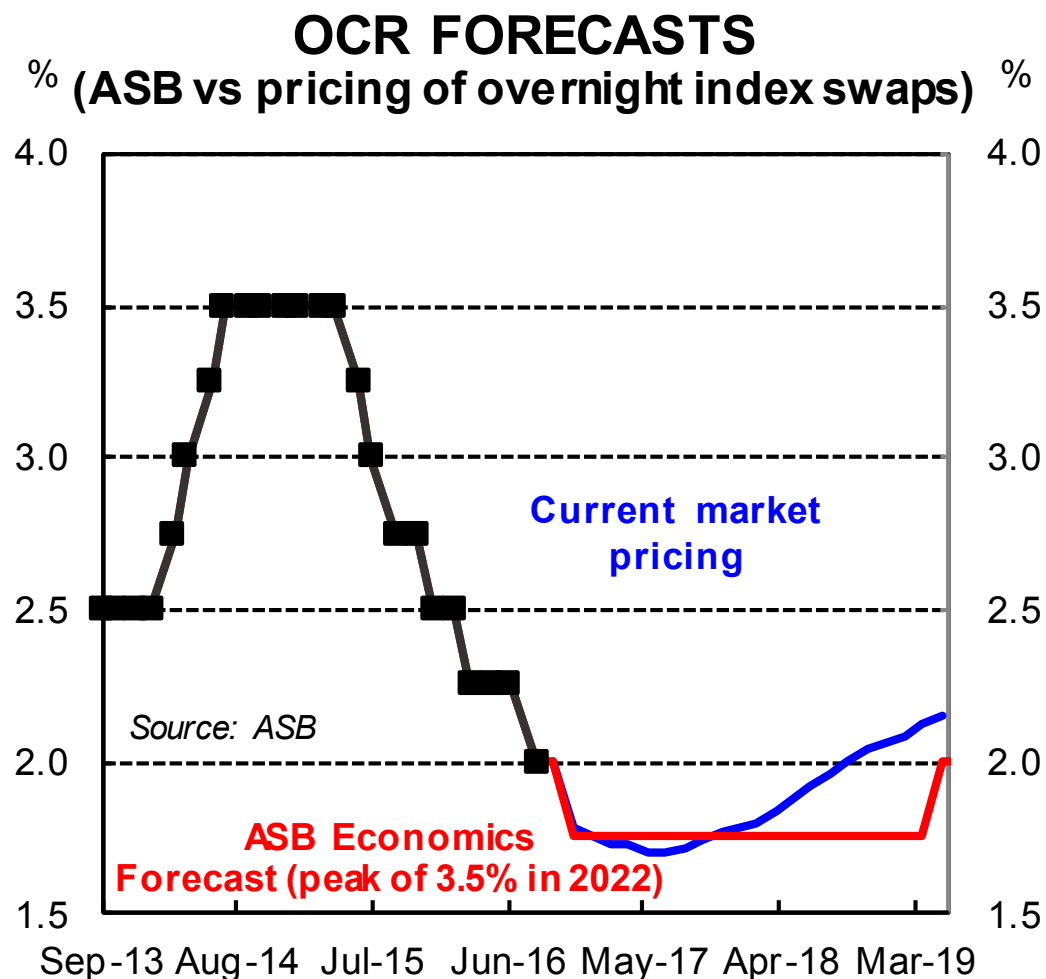
Inflation, financial markets



Inflation low for an uncomfortably long time?

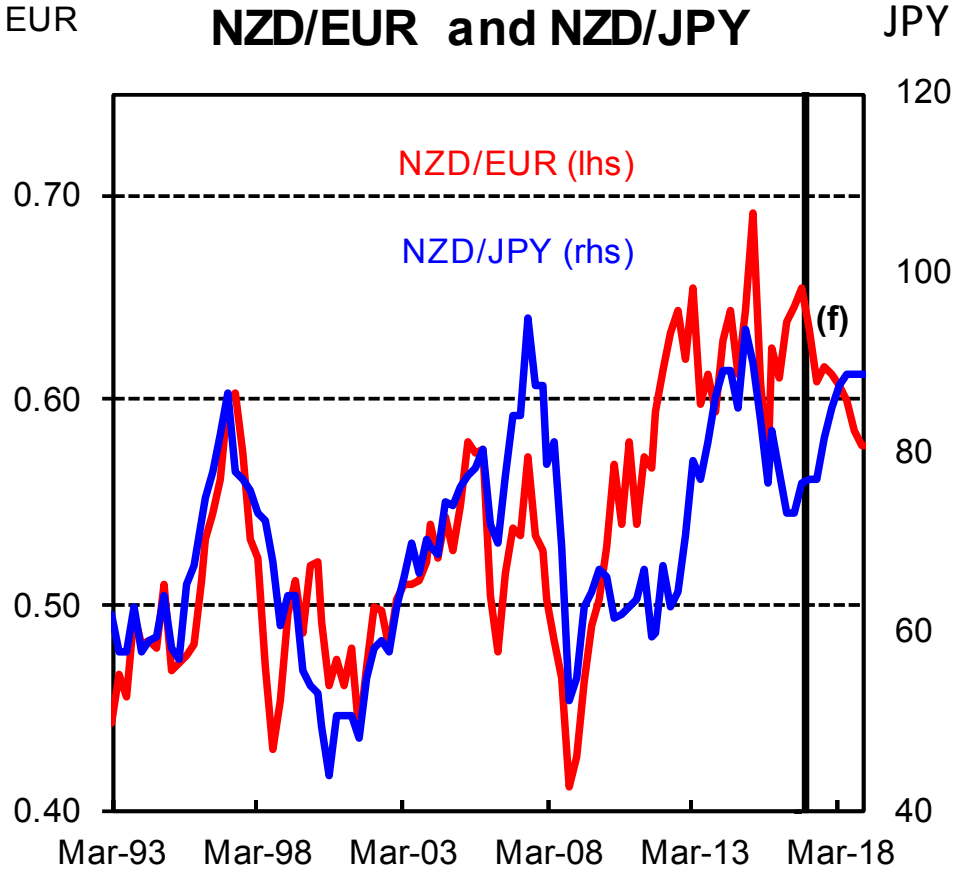
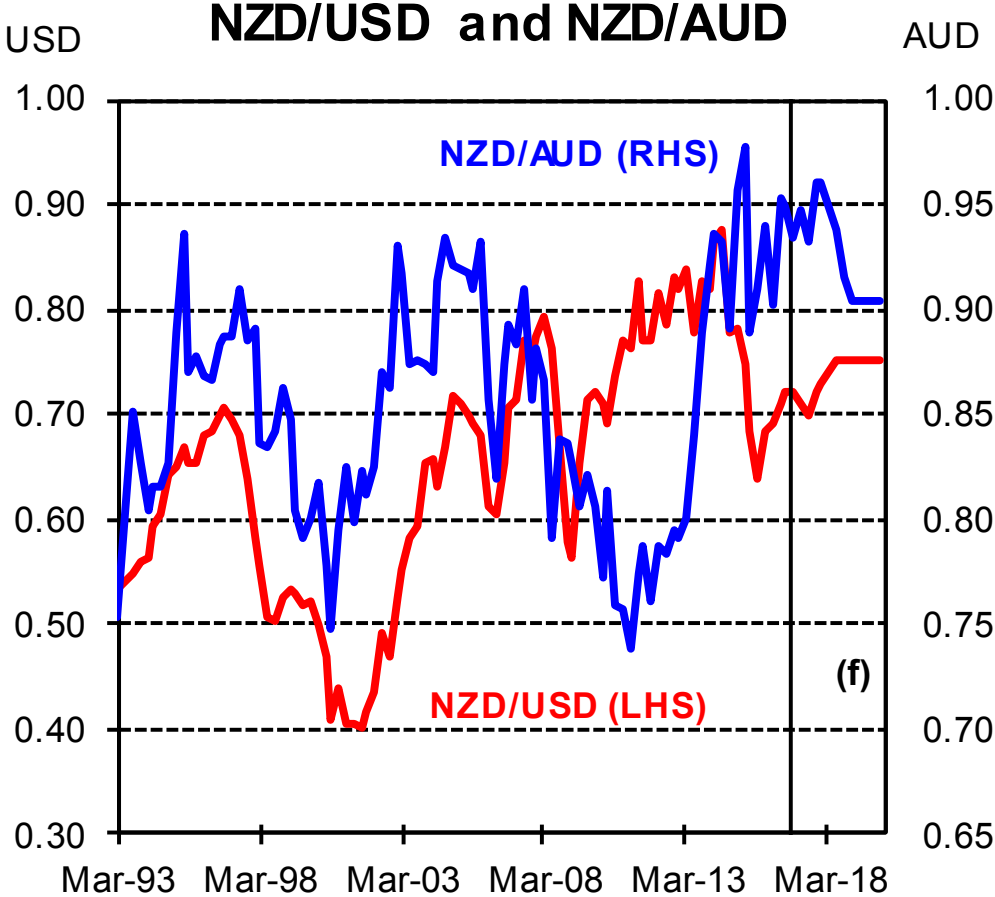


Interest rates low for a long time



- One more cut in November to 1.75%.
- Inflation outlook suggests OCR risks skewed to an even lower outcome.
- Funding costs, deposit challenges:
 - Behavioural changes
 - Deposit growth slowing
 - Added pressure on cost of funds

NZD forecasts



Summary

- Trading partner growth OK – but a diverse range of uncertainties.
- NZ economy set to pick up to 3+% growth over next 2 years.
- Growth will be supported by migration flows, tourism, construction, low interest rates and NZD, real wage growth. Dairy cashflows under pressure until 2017H2.
- Housing: lending restriction impacts, some bounce next year, then settling to a moderate pace.
- Inflation pressures are low, and we expect the RBNZ to cut the OCR to 1.75% in November. Risk is an additional cut in 2017.