



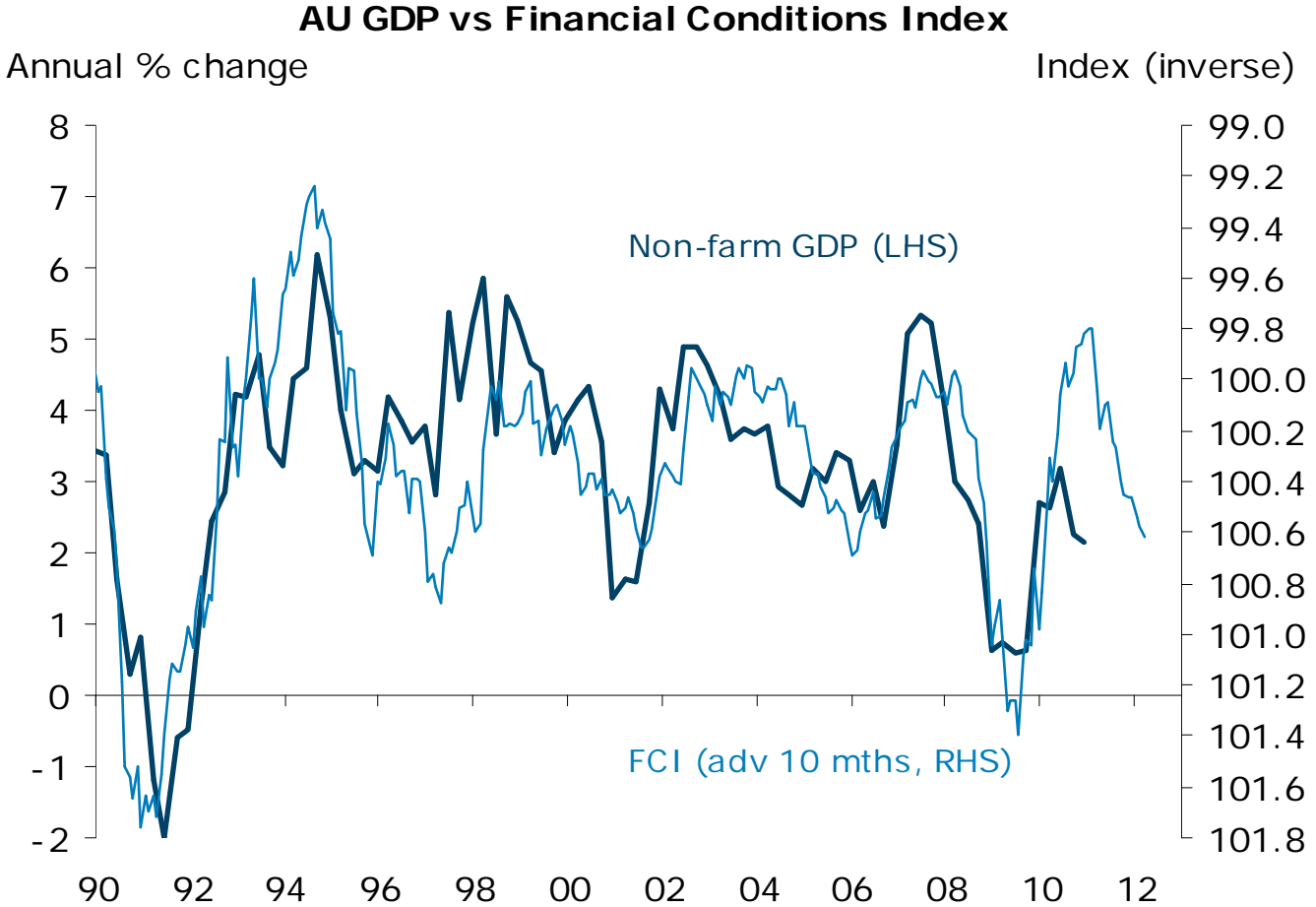
New Zealand Economic Outlook

Rebalancing and rebuilding in the
midst of a terms of trade boom

Cameron Bagrie
Chief Economist

Part 1: Global assumptions

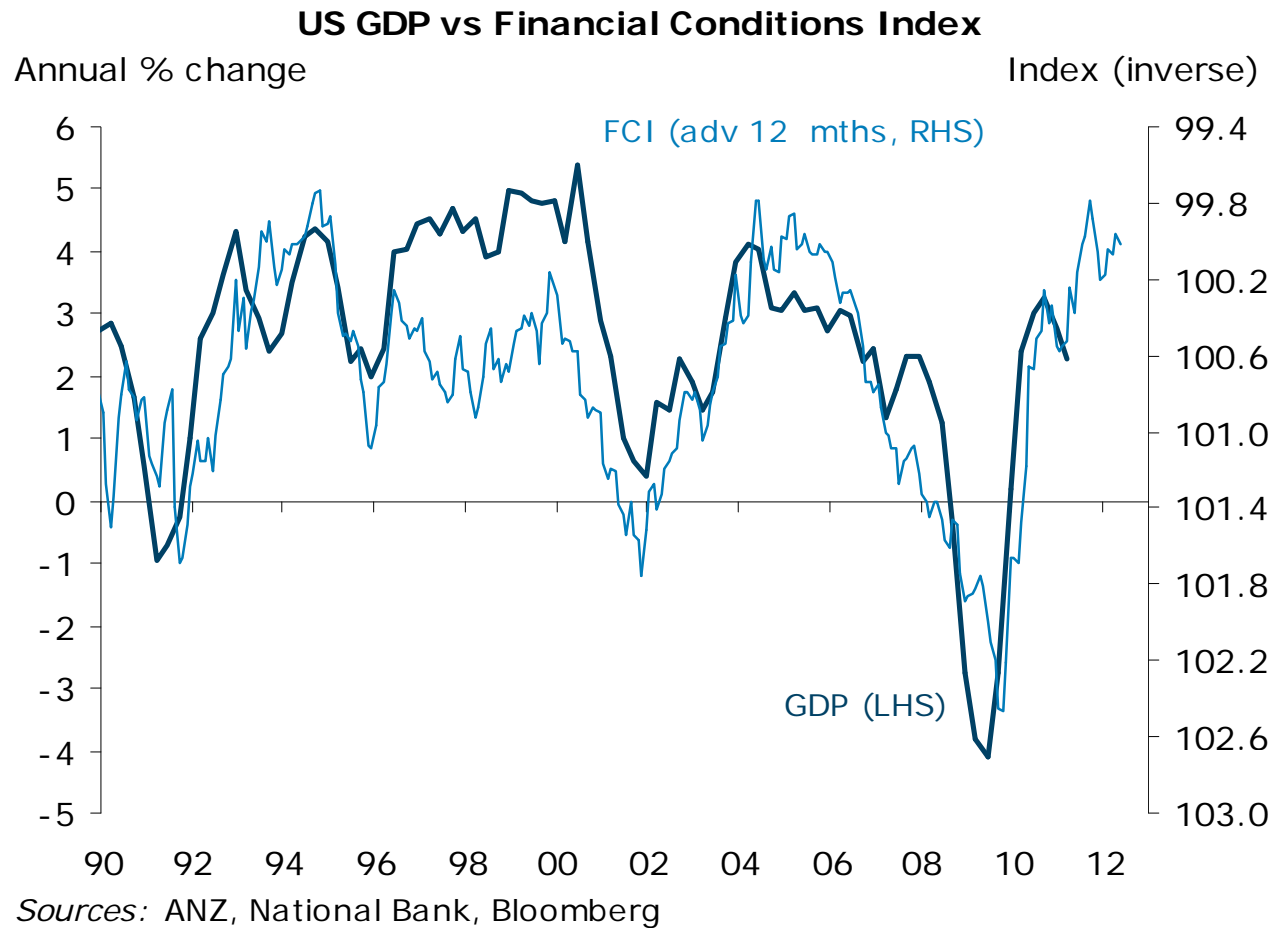
ANZ Proprietary Models: Financial Conditions Indexes - Australia slowing



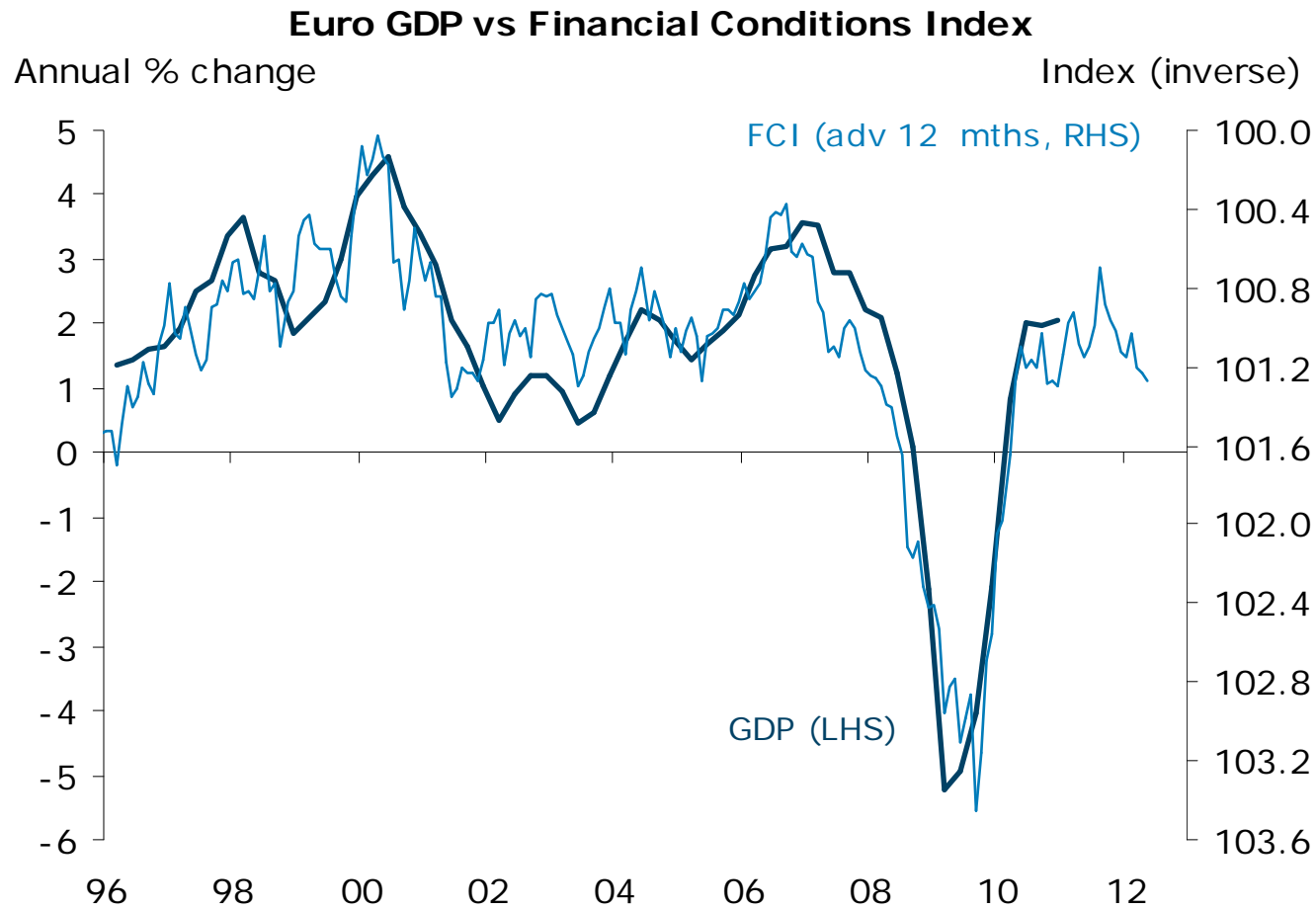
Sources: ANZ, National Bank, Bloomberg



ANZ Proprietary Models: Financial Conditions Indexes – US looking better than is acknowledged



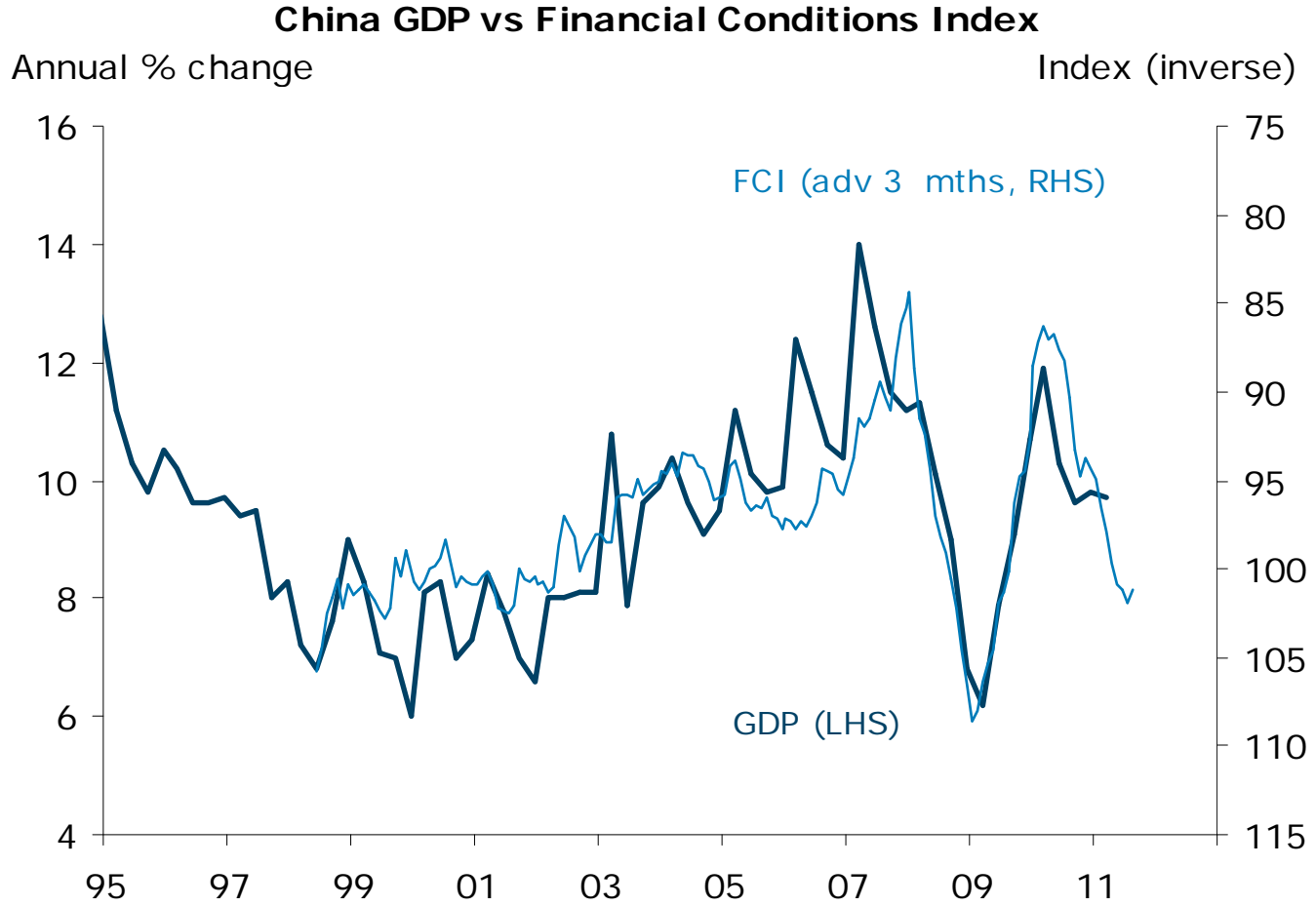
ANZ Proprietary Models: Financial Conditions Indexes – Europe easing



Sources: ANZ, National Bank, Bloomberg



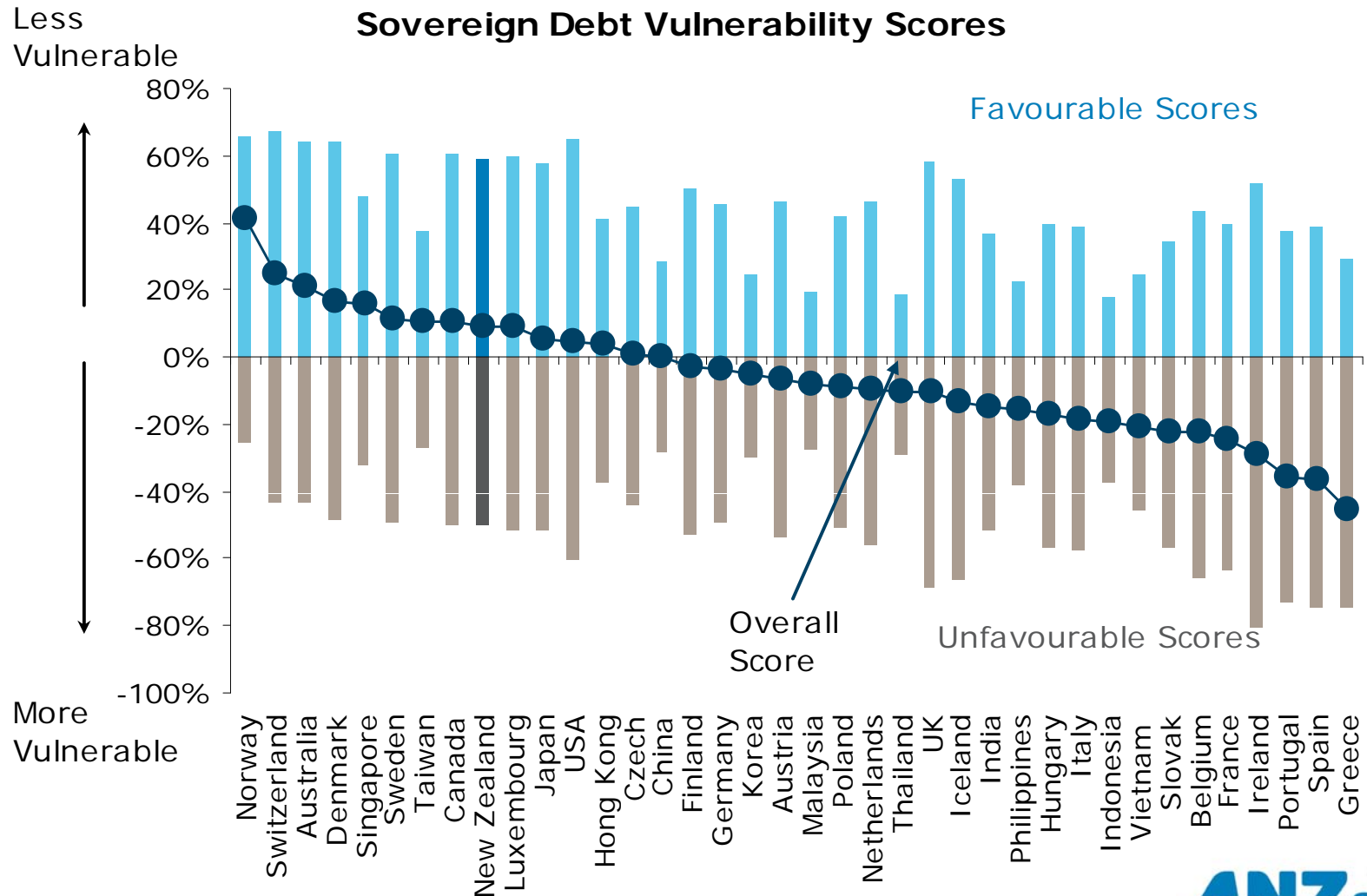
ANZ Proprietary Models: Financial Conditions Indexes - China slowing



Sources: ANZ, Bloomberg



Sovereign risk rankings – Eurozone centric issues

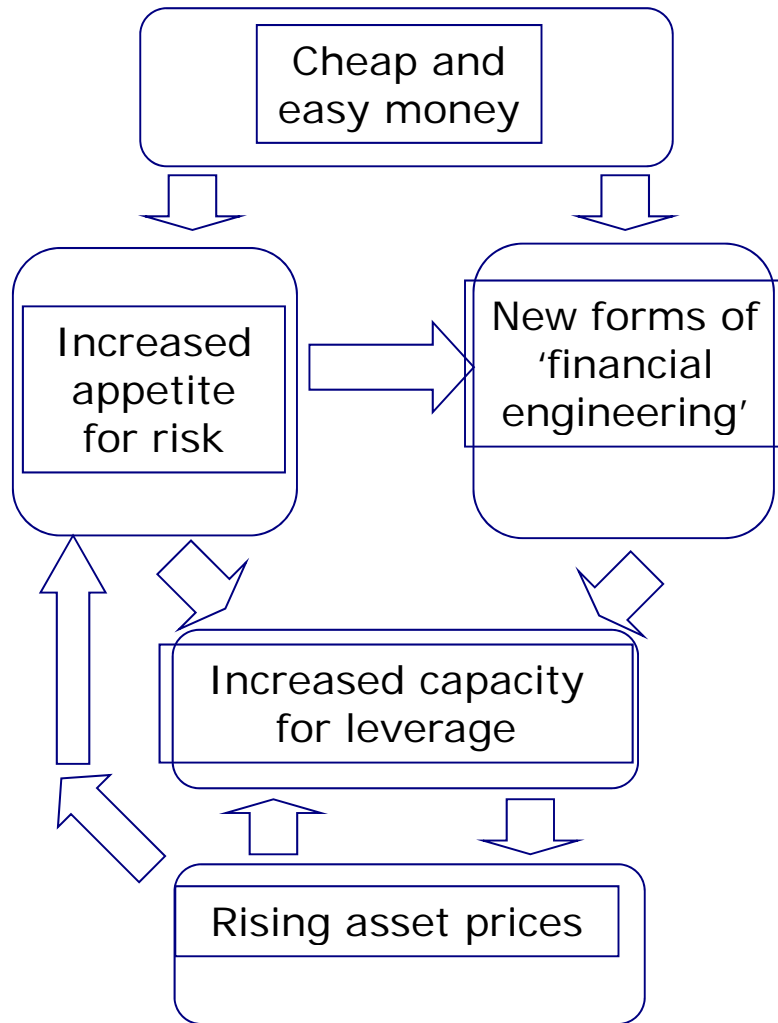


Source: ANZ

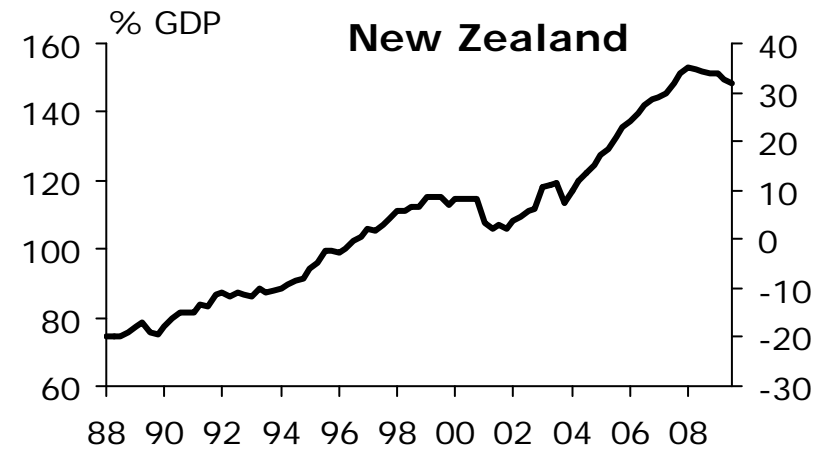


Part 2: The Structural side of
the equation: where is NZ
headed?

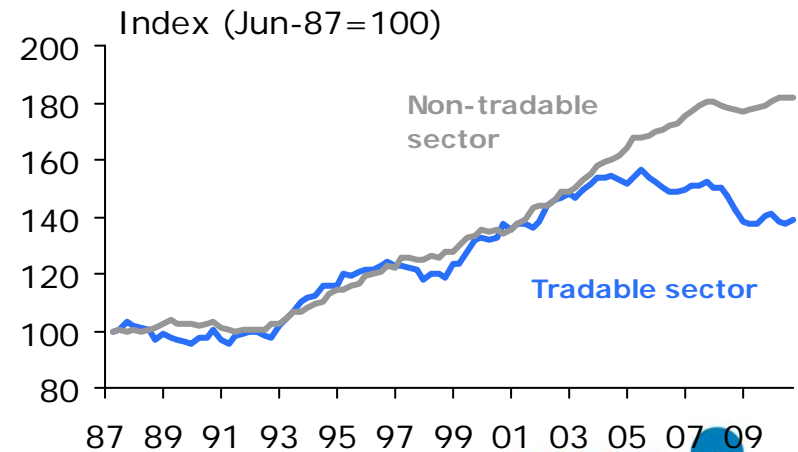
A legacy of over-exuberance is still being worked through



Private Sector Credit



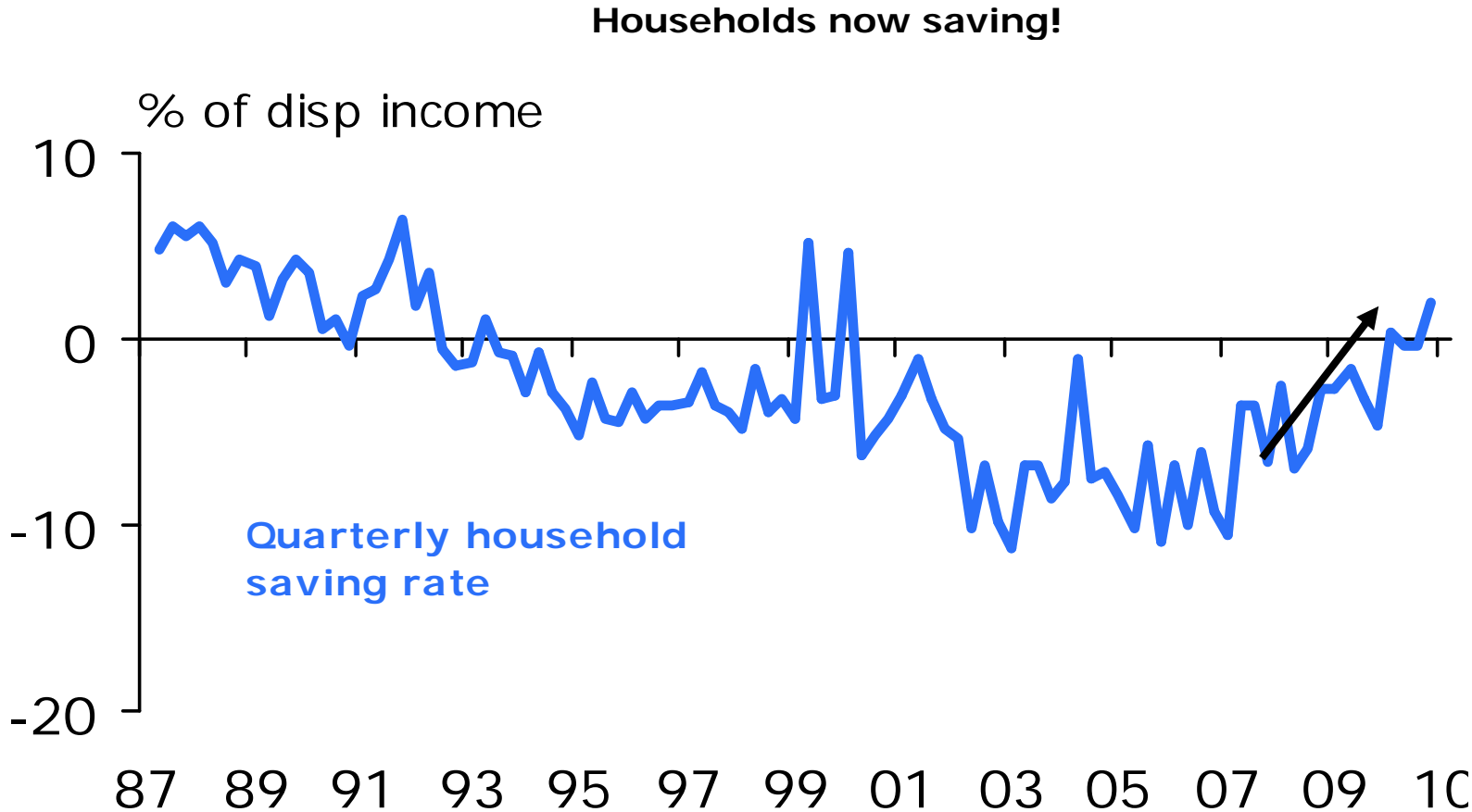
A poor mix to growth



Re-engineering the economy

- Fix legacy issues
- Identify areas of strategic advantage and excellence
- Formulate a plan around them
- The plan cannot be solely politically led and magic potions don't exist
- But execution still requires more leadership than populism
- Get the right incentives in place
- Pray!

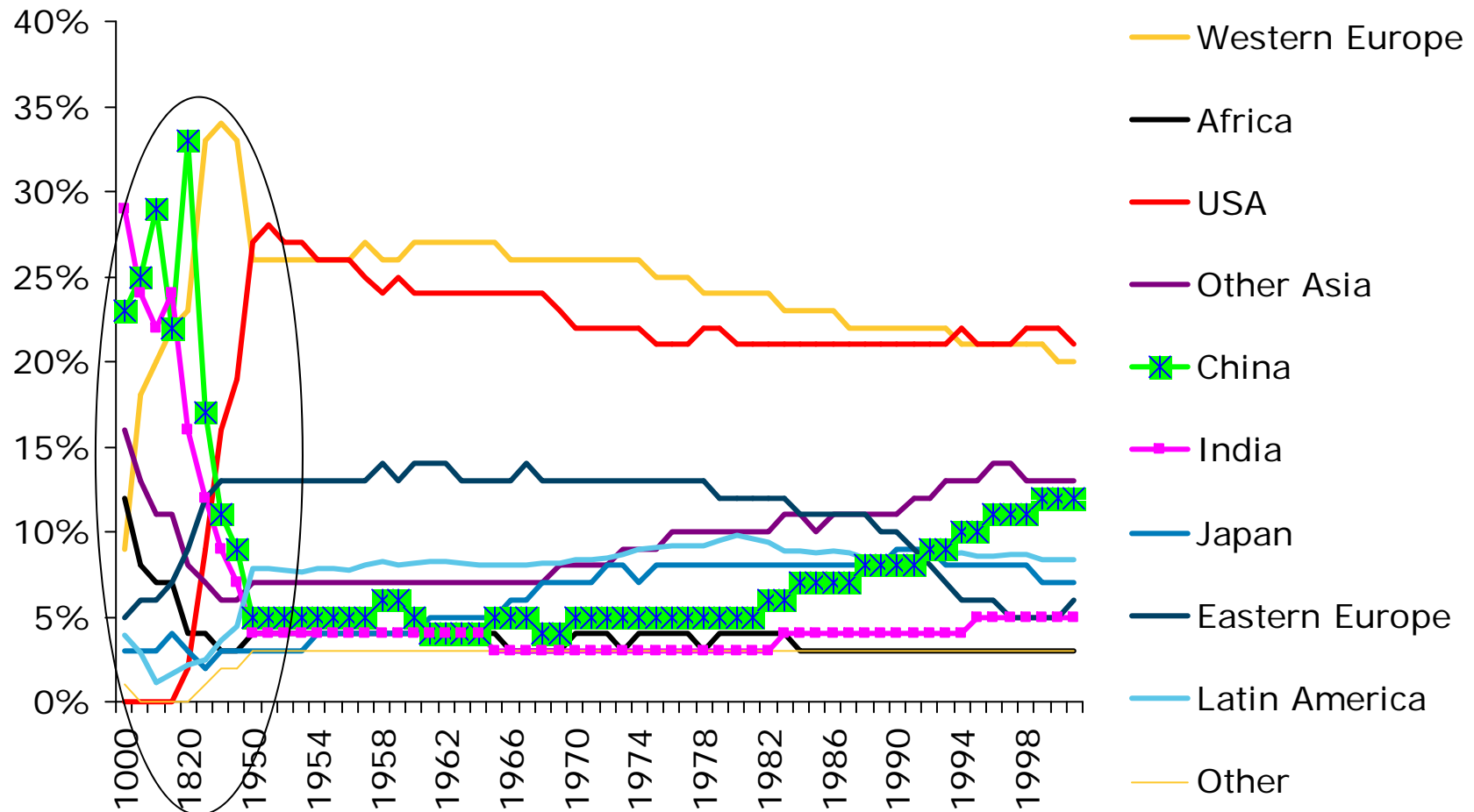
Structural indicators continue to weigh on the economy but we've made progress



Sources: *Statistics NZ; ANZ*



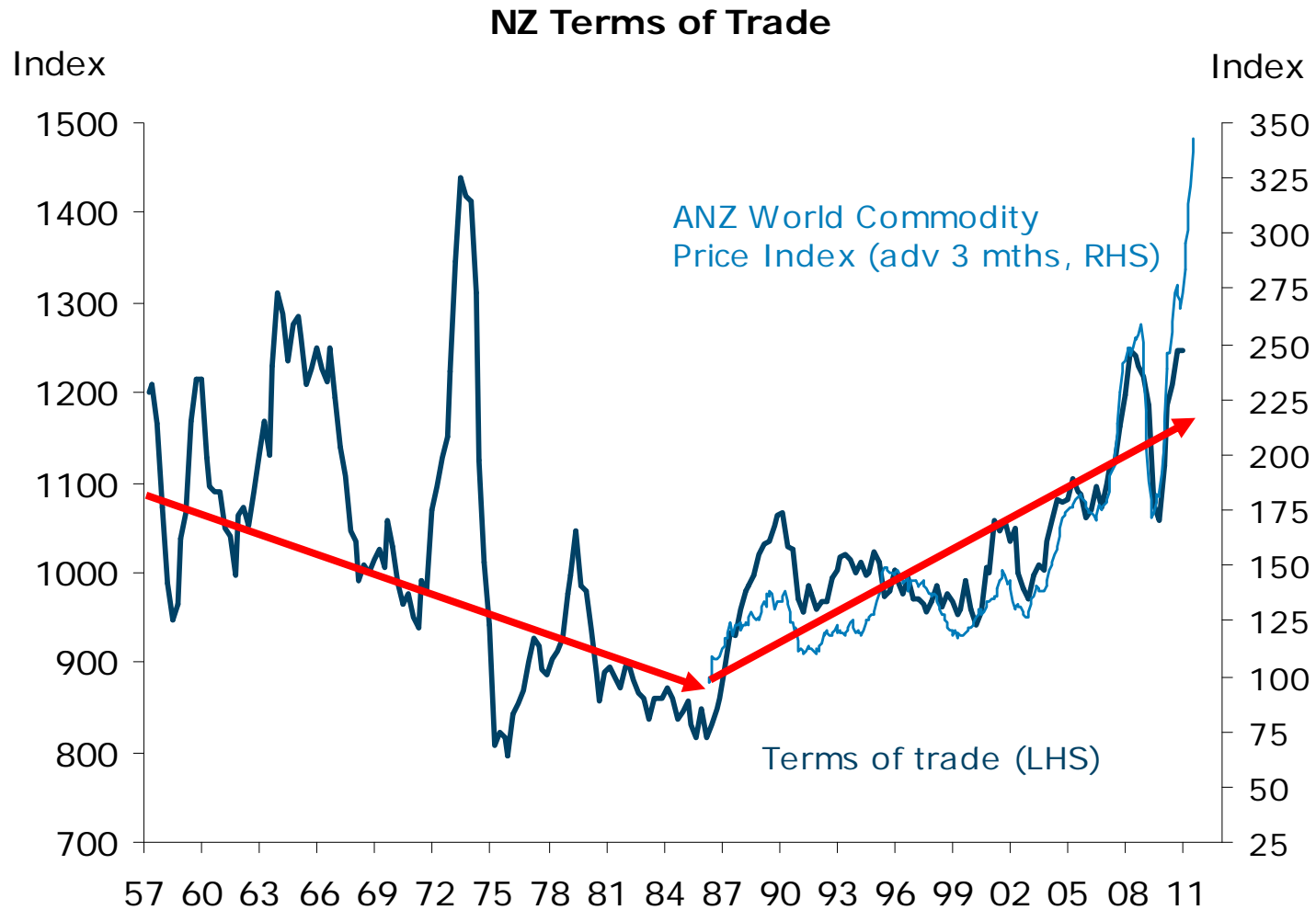
Share of global GDP: a real long-term perspective



Source: Madison



We are the lucky country too. Terms of trade set to match mid-1970s highs



Sources: ANZ, Statistics NZ

Some econometric alpha: a long term perspective on NZ's growth performance

Relative contributions for New Zealand Growth				
% contribution to growth	1860-2003	1974-83	1984-93	1994-2003
GDP growth	3.5	1.5	1.3	3.2
Labour input	36	35.8	24.5	37.9
Capital input	25	42.2	39.9	23.8
Terms of trade (land)	-4	-27.1	21.4	12.7
TFP	43	49.1	14.3	25.6
Percentage points				
	1860-2003	1974-83	1984-93	1994-2003
Labour input	1.26	0.54	0.32	1.21
Capital input	0.88	0.63	0.52	0.76
Terms of trade (land)	-0.14	-0.41	0.28	0.41
TFP	1.51	0.74	0.19	0.82
GDP growth (average)	3.50	1.50	1.30	3.20

The upshot: Terms of trade is a key variable. Diffusion to broader economy very important



Seafood is a key part of the improving story

Seafood prices in world terms



Sources: ANZ

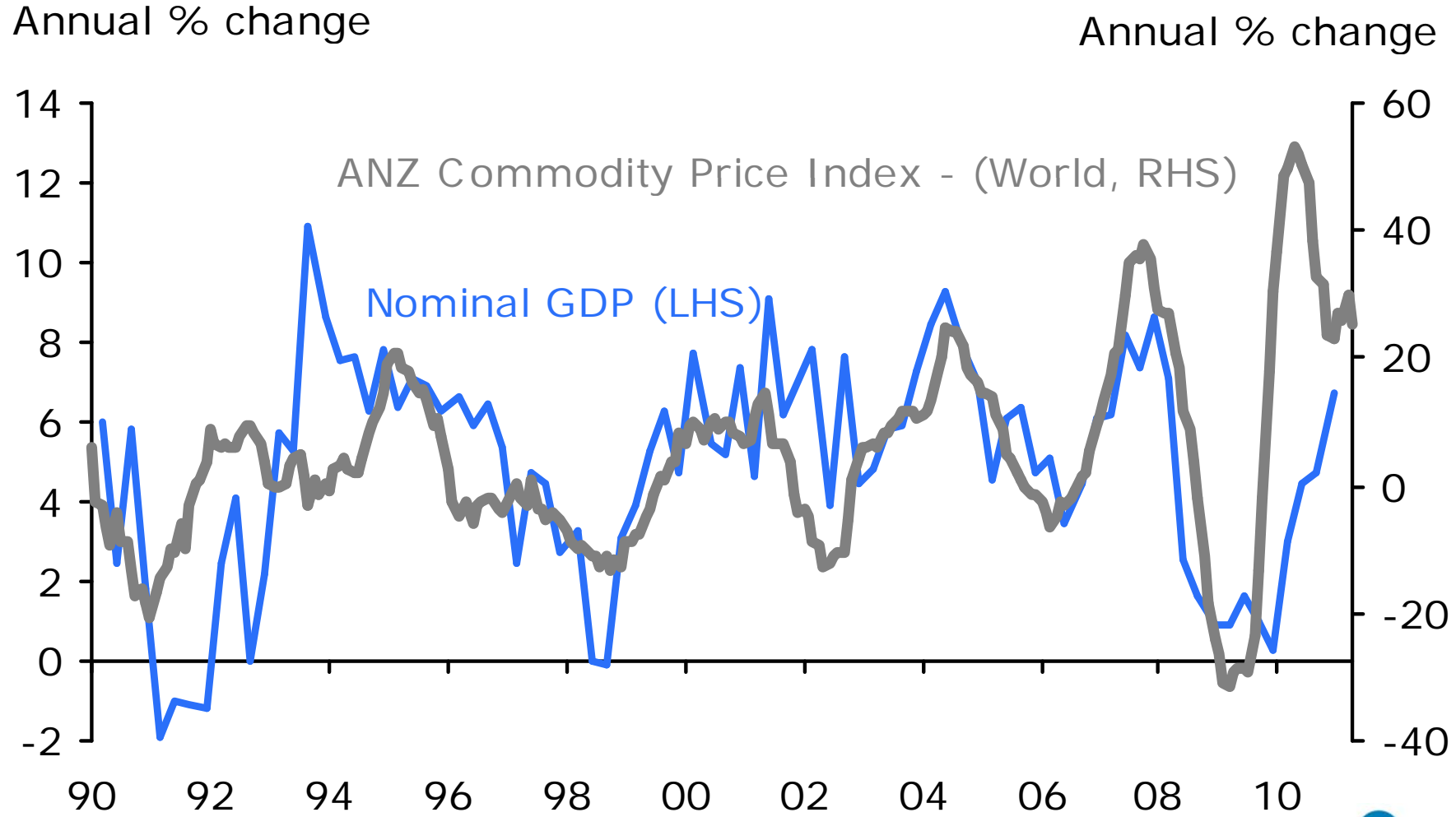


Commodity price theories – economists have all bases covered!

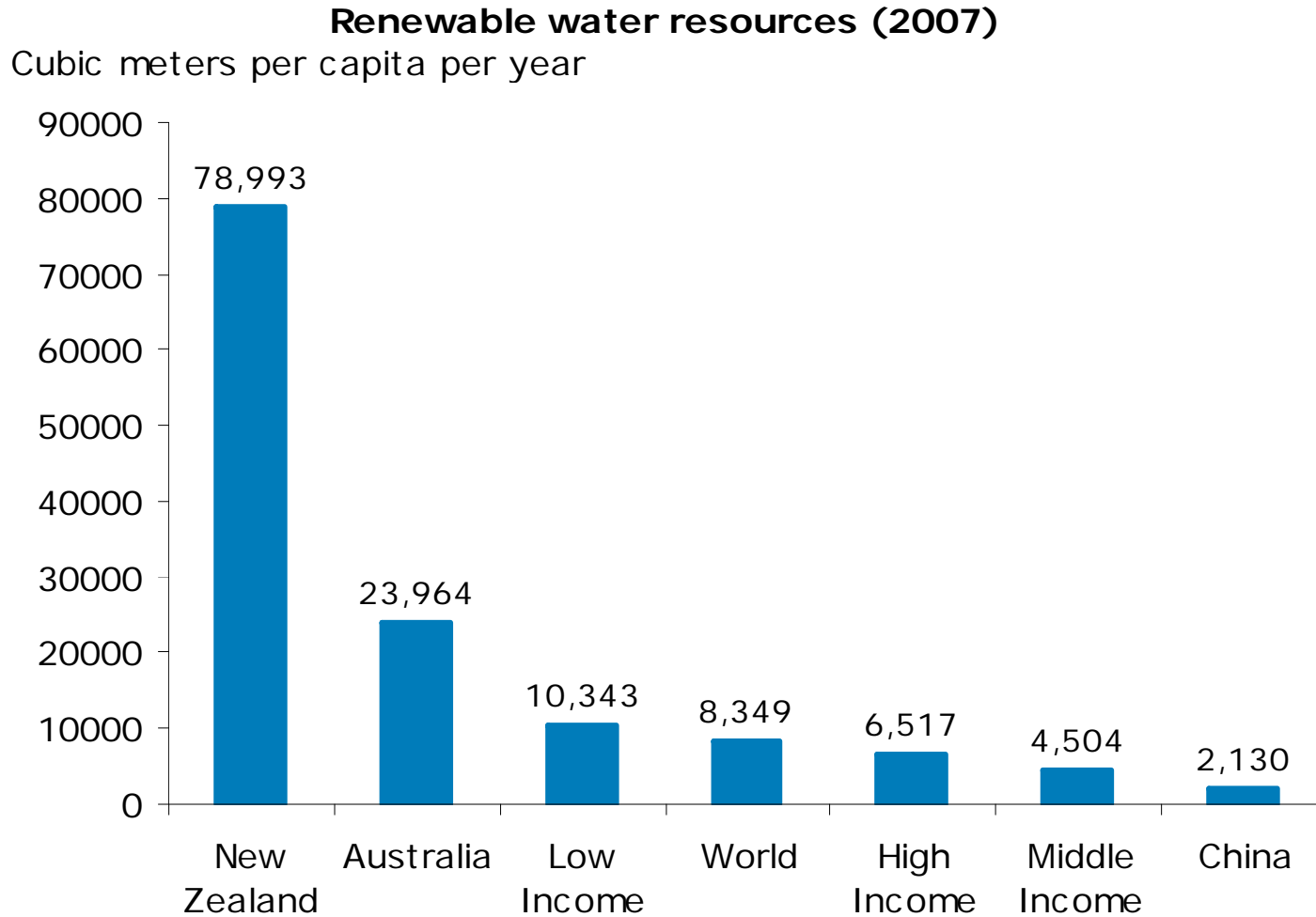
- Limited supply so price goes up: peak oil etc are derivatives of this
- Prebisch and Singer: trend is falling commodity prices
- Lewis et al: it depends.....

The role of excess liquidity will be debated

Normally commodity prices would fire us up



New Zealand has a huge comparative advantage in water endowment



Sources: ANZ, United Nations ESCAP



Free trade agreements give New Zealand greater access to export markets

Country	GDP US\$bn in current prices	Population (millions)	Average real GDP growth past 10-years	% of NZ exports	% of NZ imports
FTA in force or about to be in force					
Australia	1,220	22.2	3.0	23.7	18.8
Singapore	217	5.1	5.7	2.6	3.6
Thailand	313	67.7	4.3	1.4	3.2
Brunei	12	0.4	1.3	0.0	1.3
Chile	199	17.2	3.8	0.1	0.1
China	5,745	1341.4	10.5	10.3	15.7
Myanmar	36	61.2	10.3	0.0	0.0
Philippines	189	94.0	4.7	1.7	0.3
Vietnam	102	88.3	7.2	1.0	0.5
Cambodia	11	14.3	7.7	0.0	0.0
Indonesia	695	234.6	5.2	2.2	1.5
Laos	6	6.4	7.1	0.0	0.0
Malaysia	219	28.2	4.6	1.8	3.6
Hong Kong	226	7.1	4.0	2.0	0.3
FTA under negotiation					
Bahrain	22	1.1	5.9	0.2	0.0
Oman	54	3.0	4.9	0.1	0.1
Kuwait	117	3.6	5.5	0.2	0.5
Saudi Arabia	434	26.1	3.3	1.3	0.7
UAE	240	5.1	5.4	1.0	2.6
Qatar	127	1.7	13.7	0.1	2.1
Korea	986	48.9	4.1	3.2	3.2
India	1,430	1215.9	7.4	1.8	0.9
Russia	1,477	140.4	4.9	0.5	1.2
Belarus	53	9.4	7.4	0.0	0.0
Kazakhstan	130	15.6	8.1	0.0	0.0
Peru	154	29.6	5.7	0.1	0.1
US	14,624	310.3	1.7	8.9	9.7

Sources: ANZ, IMF, Statistics NZ

Current FTA covers:

2 billion people (29% of global popn)
15% of global GDP

FTA under negotiation covers:

1.8 billion people (27% of global popn)
32% of global GDP

If all successful:

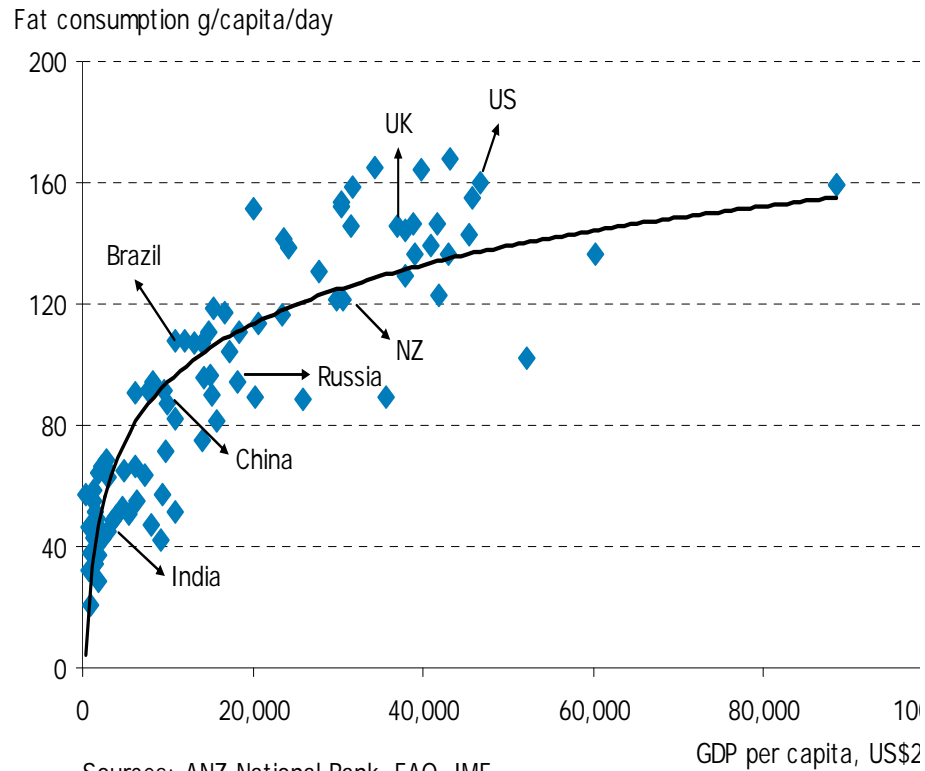
NZ would have free access to half the world's population and half of global GDP!

Significance for the likes of the tourism industry as well should not be ignored

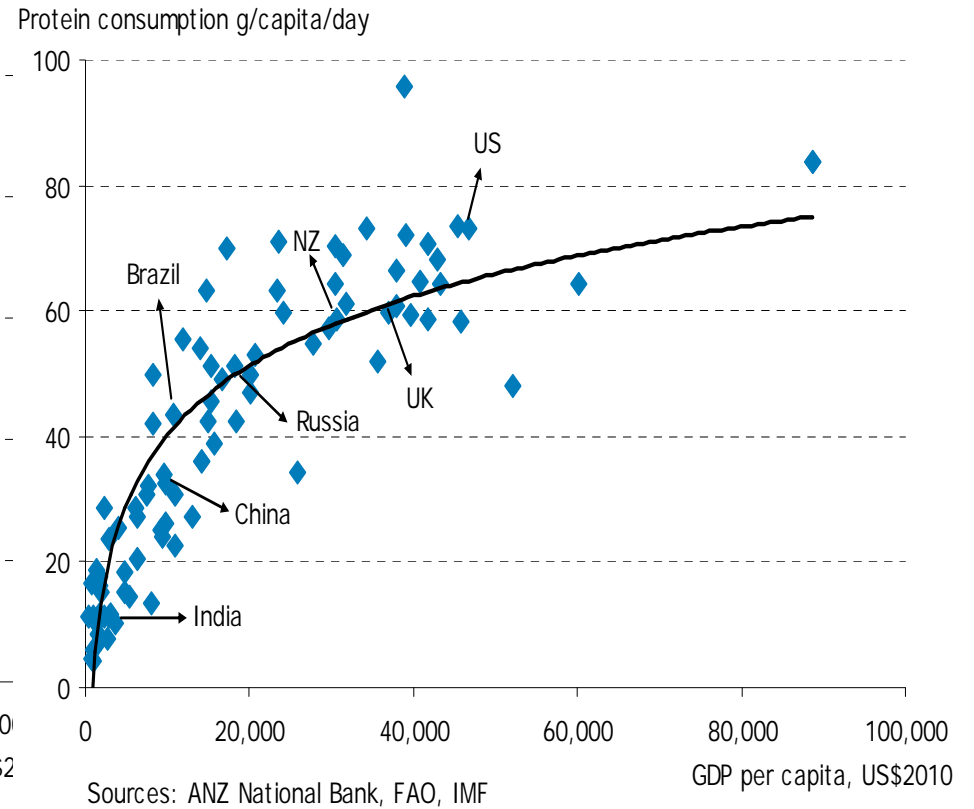


It is not just about protein consumption.....

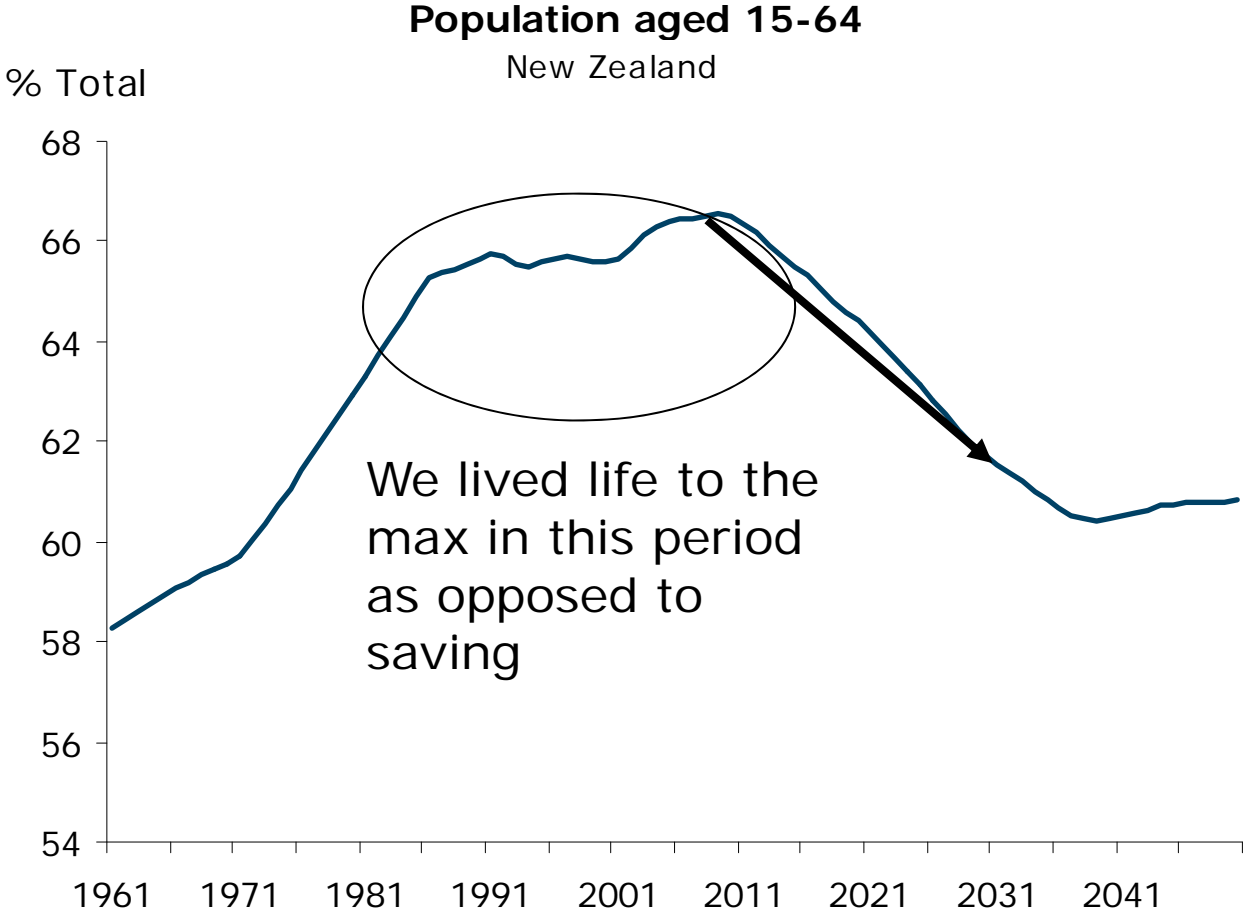
Income levels vs. fat consumption



Income levels vs. protein consumption



We need to be moving quicker



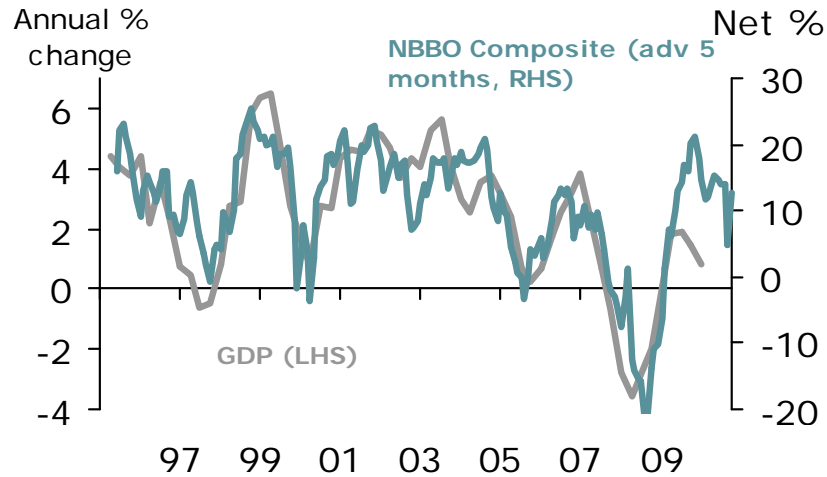
Sources: ANZ, National Bank, Statistics NZ



Part 3: The cycle

Things are moving into place

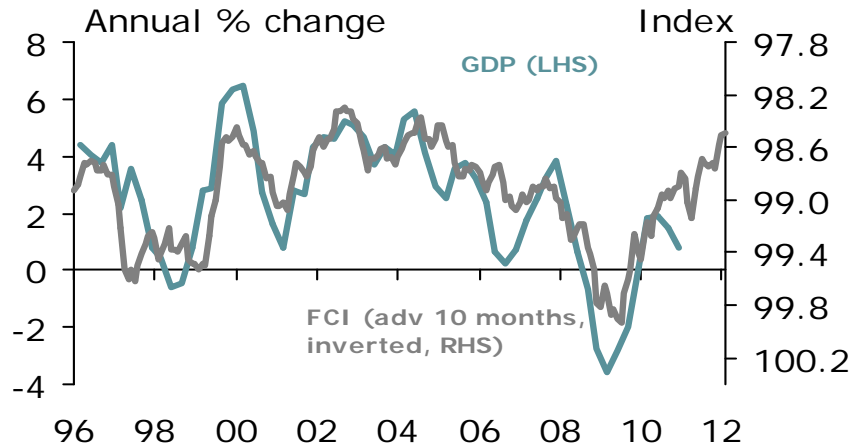
Business confidence rebounds from March



Business confidence up after March dip

Financial conditions are very supportive. Commodity prices suppressing NZDUSD's impact and NZDAUD very favourable

Financial conditions are very supportive



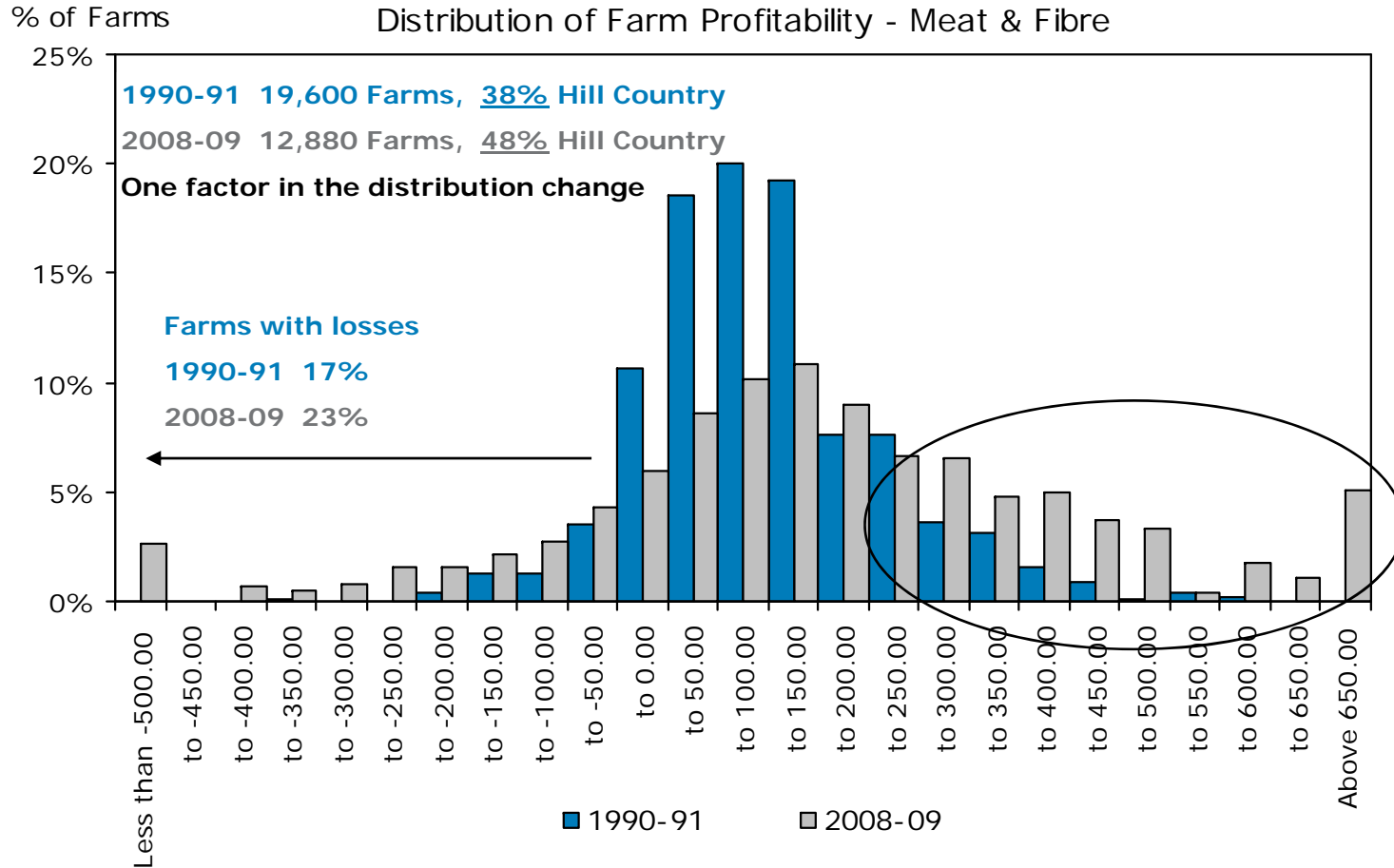
2011 started different to how 2010 closed

But still a lot of fragmentation across the economy

Only thing certain is uncertainty



Some farms still struggling due to high leverage, but plenty looking very profitable.



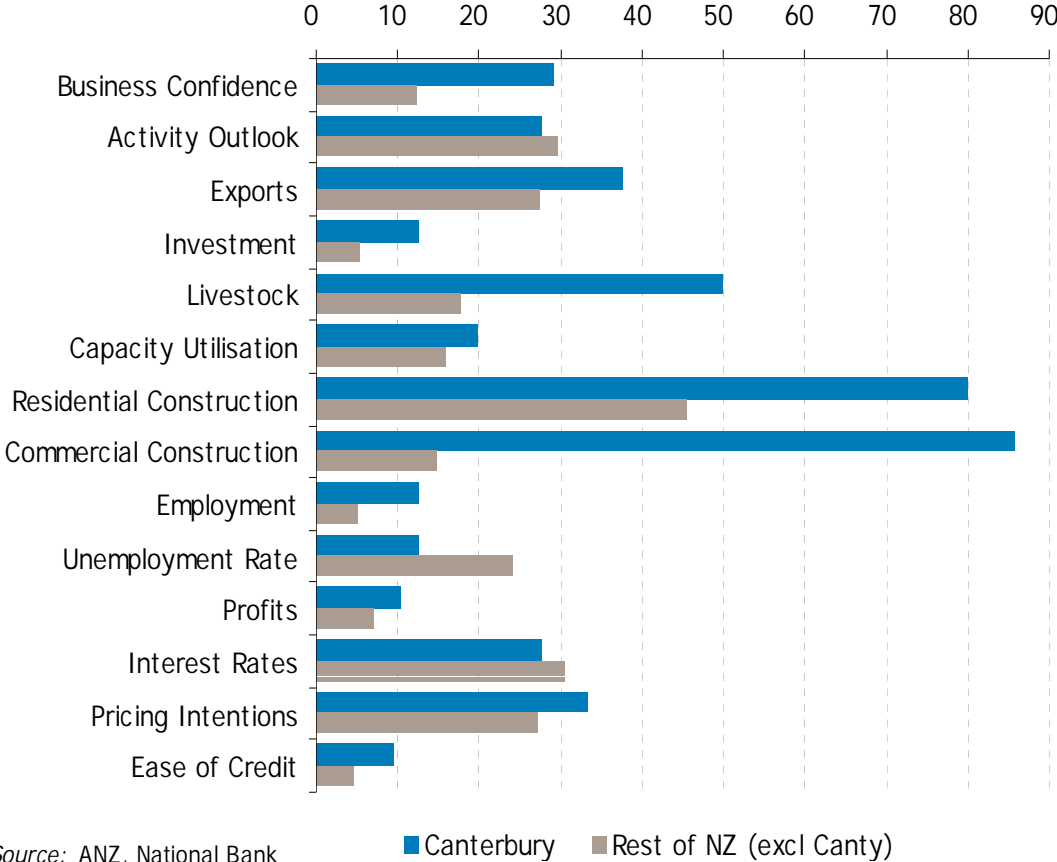
Sources: ANZ National Bank, Beef + Lamb New Zealand Economic Service



Part 4: The quake

Business confidence – Canterbury vs Rest of NZ. Sharp rebound in Canterbury of late. Same with job ads.

Canterbury versus Rest of NZ Net Balances, April 2011



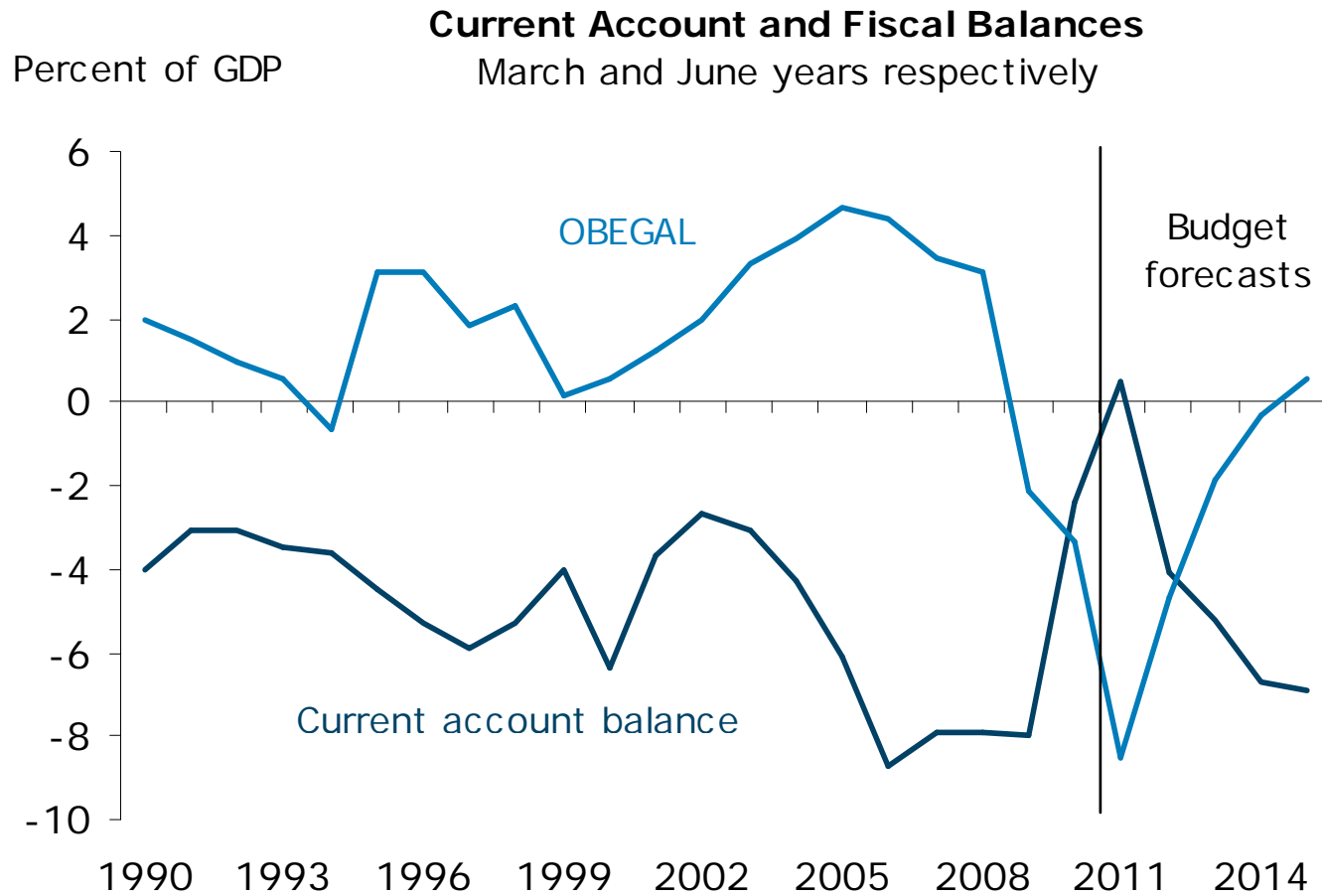
Part 5: Fiscal policy

Setting the scene

- Who would want to be the MoF?
 - Biggest deficit ever
 - Billion dollar bond tenders
 - Negative outlook for credit rating
 - Unbalanced economy
 - Household sector with a negative savings rate
 - Quake x 2
 - Election year, MMP
- But
 - Natural water endowment: NZ 79,000 cubic metres per capita, China 2,600
 - Record commodity prices
 - Current FTA covers: 2 billion people (29% of global popn, 15% of global GDP)
 - FTA under negotiation covers: 1.8 billion people (27% of global popn, 32% of global GDP)
 - Asia, Asia and Asia
 - The ability to leverage off our natural endowments, though not in a traditional borrow and spend sense!
- How do we get there? Do magic potions exist?



How do we make sure public sector savings is not simply diluted by the reverse in the private sector?

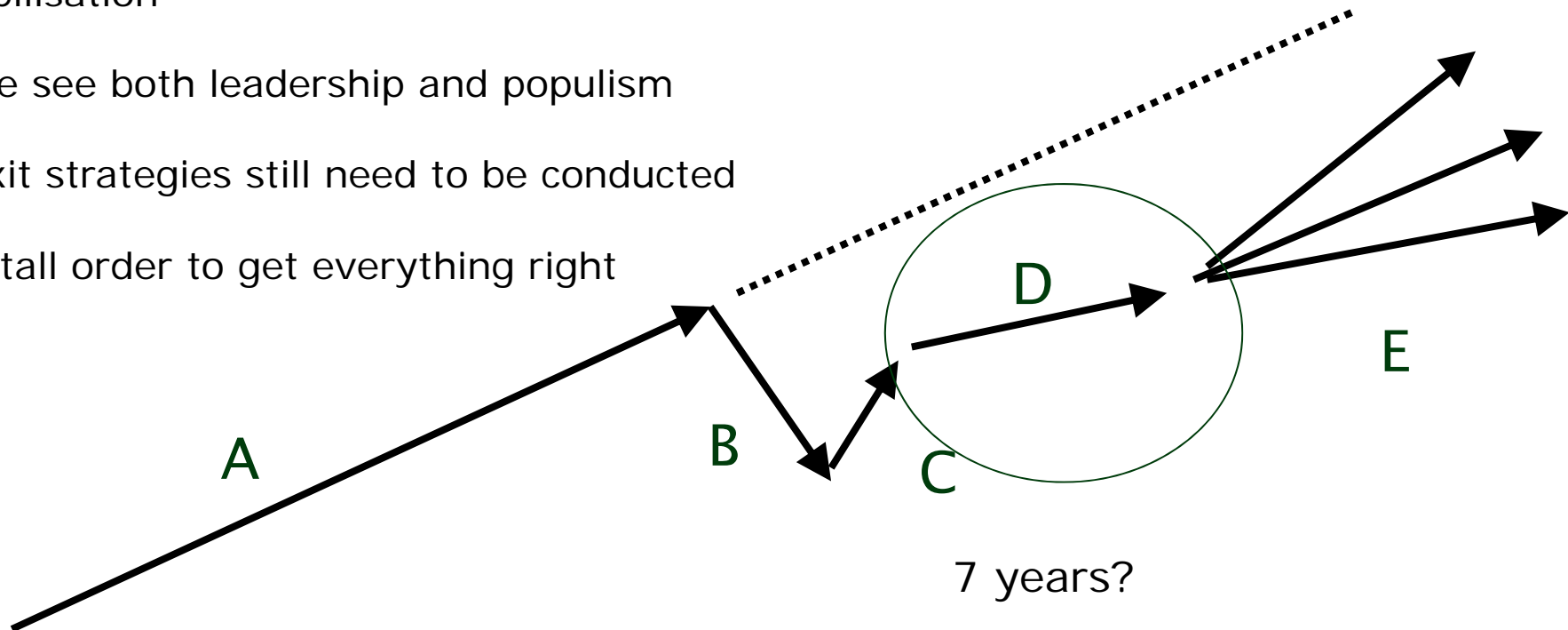


Source: Treasury, ANZ, National Bank, Statistics New Zealand



Slower trend growth rate over a number of years in the “transition” stage. A cash flow dominated environment

- >Deleveraging crimps growth
- >Physical resource limit immediate resource mobilisation
- >We see both leadership and populism
- >Exit strategies still need to be conducted
- >A tall order to get everything right



The upshot

- We've started a long journey
- Global economy will remain bumpy
- Increased exposure to Asia will bring some challenges: they too will experience business cycles
- Some phenomenal progress has been made
- Seafood industry a key part of the story
- In some areas we appear to be taking the possum approach



Bloomberg users can find our research by typing: [ANZR <GO>](#)

Disclaimer

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs. This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank. The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites. Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment. In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.

- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank. Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.