NZ Economy - Overview

GDP growth above trend, while inflation pressures remain muted

Leading indicators suggest a near-term annual GDP growth rate around a robust 3.0-3.5% YoY level

Current supportive factors include:

- Historic high net migration
- Strong tourism growth
- Robust construction sector activity – housing and growing infrastructure spending
- Low interest rate settings

Current negative factors include:

- Domestic growth weaker on a per capita basis
- Migration cycle creating stresses in the economy
- Excessive house price inflation increases financial stability risks
- Dairy prices continue to remain below average
- NZ dollar exchange rate remains elevated – impacting export competitiveness
- Slow global growth and risk of rising protectionism

GDP growth is expected edged up from 2.5% in 2015 to 3.3% in 2016
NZ Economy – Business & Consumer Sentiment Positive

GDP growth above trend, while inflation pressures remain muted

Confidence Strongest In Services, Weakest In Manufacturing

Business Sentiment Modestly Above Average Levels

Activity Outlook Suggests GDP Growth In Excess Of 3.5% YoY

Consumer Sentiment Suggests Growth Around 3.0% YoY

Source: ANZ, First NZ Capital

Source: Statistics NZ, ANZ Roy Morgan, First NZ Capital
NZ Economy – Rising Population
Consumption supported by a rising population and a sharp increase in overseas visitor arrivals

Rising Retail Spending Supported By Population Growth

Source: Statistics NZ, First NZ Capital

Sharp Rise In Overseas Visitor Arrivals

Source: Statistics NZ, First NZ Capital

Consumption Growth Outpaces Consumer Sentiment

Source: Statistics NZ, ANZ Roy-Morgan, First NZ Capital

Strengthening Visitor Arrivals Supports Broader GDP Growth

Source: Statistics NZ, First NZ Capital
NZ Economy – Migration & House Prices

Historic high net migration, an Auckland underbuild, increased investor activity and low interest rates support house prices

Wide Gap Between Auckland Prices And Other Regions

The Rate Of Auckland House Price Growth Eases Back

Auckland House Price-To-Income Ratio At Historic Highs

Historic High Net Migration Supports Housing Activity

Source: REINZ, First NZ Capital
Source: RBNZ, First NZ Capital
Source: Statistics NZ, REINZ, First NZ Capital
NZ Economy – GDP Growth
GDP growth above trend, while inflation pressures remain muted

GDP Per Capital Growth Rate A Relatively Modest 1.4% YoY

Near-Term GDP Expected To Be Around 3.0-3.5% YoY

Consensus Forecasts For Growth Of 3.0% YoY% For 2016

Source: Statistics NZ, First NZ Capital
Source: Consensus Forecasts, First NZ Capital
NZ Economy – Inflation Trends

Headline CPI dampened by weakness in tradeables inflation; inflation expectations lower

RBNZ Monetary Policy retains explicit easing bias

CPI Inflation Of 0.2% YoY Well Below The 1-3% Target Band

RBNZ’s “Core” Measure of Inflation Unchanged at 1.6% YoY

Headline CPI Dampered By Weakness In Tradables Inflation

Inflation Expectations Subdued And Risk Embedding Lower

Source: Statistics NZ, First NZ Capital

Source: Statistics NZ, RBNZ, First NZ Capital

Source: Statistics NZ, ANZ, First NZ Capital
NZ Economy - RBNZ Monetary Policy

RBNZ retains an explicit easing bias, suggesting that “further policy easing will be required”

RBNZ Cuts OCR By 25bps to 2.0% & Projects A Further Cut

Source: RBNZ, First NZ Capital

Weaker Inflation Prompts A Pattern Of Lower OCR Settings

Source: RBNZ, First NZ Capital

RBNZ Presents Two Downside OCR Scenarios

Source: RBNZ, First NZ Capital

Estimate Around A 30% Probability Of A Sub-1.5% OCR

Source: First NZ Capital
NZ Dollar Forecasts

RBNZ comments that “a decline in the exchange rate is needed”

NZD/USD Forecast

NZD/AUD Forecast

NZD/EUR Forecast

Credit Suisse NZ Dollar Forecasts

<table>
<thead>
<tr>
<th></th>
<th>Spot 13-Oct-16</th>
<th>3M</th>
<th>12M</th>
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<tbody>
<tr>
<td>NZD/USD</td>
<td>0.706</td>
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<td>NZD/AUD</td>
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<td>NZD/JPY</td>
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<td>NZD/EUR</td>
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<td>NZD/GBP</td>
<td>0.579</td>
<td>0.602</td>
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Source: Credit Suisse, First NZ Capital
NZ Equity Market Prospects – Earning Yield v Bond Yields

Valuations full, but yield-based stocks supported

**Earning Yield Remains Attractive Relative To Bond Yields**

Source: IRESS, First NZ Capital

**Dividend Yields Continue To Outpace Bond Yields**

Source: IRESS, First NZ Capital

**Earnings Yield Gap Still Supportive**

Source: IRESS, First NZ Capital

**PE Multiple of 21.2x Above 10-Year Average Of 16.3x**

Source: IRESS, First NZ Capital
NZ Equity Market Prospects – Market Fully Priced

Real NZ Equity Market Cycles Compared

Historic High P/E Ratios Supported By Low Bond Yields

Real Equity Market Cycle Above Average in Duration And Size

Recent Returns Suggest Muted Market Gains Going Forward

Source: Statistics NZ, Datastream, IRESS, First NZ Capital
### New Zealand Economic Forecasts

<table>
<thead>
<tr>
<th>December Years</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td><strong>Gross Domestic Product</strong>&lt;sup&gt;(1)&lt;/sup&gt;</td>
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<tr>
<td>GDP</td>
<td>3.8</td>
<td>2.5</td>
<td>3.3</td>
<td>2.9</td>
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<td>GDP (Dec. qtr on Dec. qtr)</td>
<td>4.1</td>
<td>2.3</td>
<td>3.3</td>
<td>2.8</td>
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<tr>
<td>Private Consumption</td>
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<td>2.3</td>
<td>3.6</td>
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<tr>
<td>Residential Investment</td>
<td>14.6</td>
<td>5.9</td>
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<td>5.8</td>
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<tr>
<td>Business Investment</td>
<td>9.9</td>
<td>2.0</td>
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<td>Gross National Expenditure</td>
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<td>3.4</td>
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<td>Exports of Goods and Services</td>
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<td>6.8</td>
<td>4.3</td>
<td>5.1</td>
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<tr>
<td>Imports of Goods and Services</td>
<td>7.9</td>
<td>3.6</td>
<td>3.3</td>
<td>4.4</td>
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<tr>
<td><strong>Inflation</strong>&lt;sup&gt;(2)&lt;/sup&gt;</td>
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<tr>
<td>CPI</td>
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<td><strong>Government Accounts (June years)</strong></td>
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<tr>
<td>Underlying Operating Balance (NZD bn)</td>
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<td>0.4</td>
<td>1.8</td>
<td>0.4</td>
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<tr>
<td>% of GDP</td>
<td>-1.2</td>
<td>0.2</td>
<td>0.7</td>
<td>0.1</td>
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<tr>
<td><strong>External Accounts</strong></td>
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<tr>
<td>Current Account Balance (NZD bn)</td>
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<td>-8.3</td>
<td>-7.5</td>
<td>-9.5</td>
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<tr>
<td>% of GDP</td>
<td>-3.2</td>
<td>-3.4</td>
<td>-2.9</td>
<td>-3.5</td>
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<tr>
<td><strong>Labour Market</strong></td>
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<tr>
<td>Employment&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>3.6</td>
<td>1.3</td>
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<td>1.4</td>
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<tr>
<td>Unemployment Rate</td>
<td>5.4</td>
<td>5.4</td>
<td>5.0</td>
<td>4.6</td>
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</tbody>
</table>

<sup>(1)</sup> Annual average percent changes  
<sup>(2)</sup> December quarter to December quarter percent changes  
<sup>(3)</sup> Average level for December month
NZFMA – Current Focus

• Benchmark Activities
  • Underlying market trading liquidity
  • Closing Rate project
  • Trading conduct interpretation during rate sets
  • Governance
  • Regulator engagement

• Managing Regulatory Change
  • Trading conduct during rate sets
  • Financial Market Conduct Act
  • Central Clearing of Derivatives
  • Close-out netting legislation
  • Cross border regulation – benchmarks equivalence and margining of uncleared derivatives