



Recovery: after the quake & financial crisis

Chris Tennent-Brown ASB Economist

June 2011

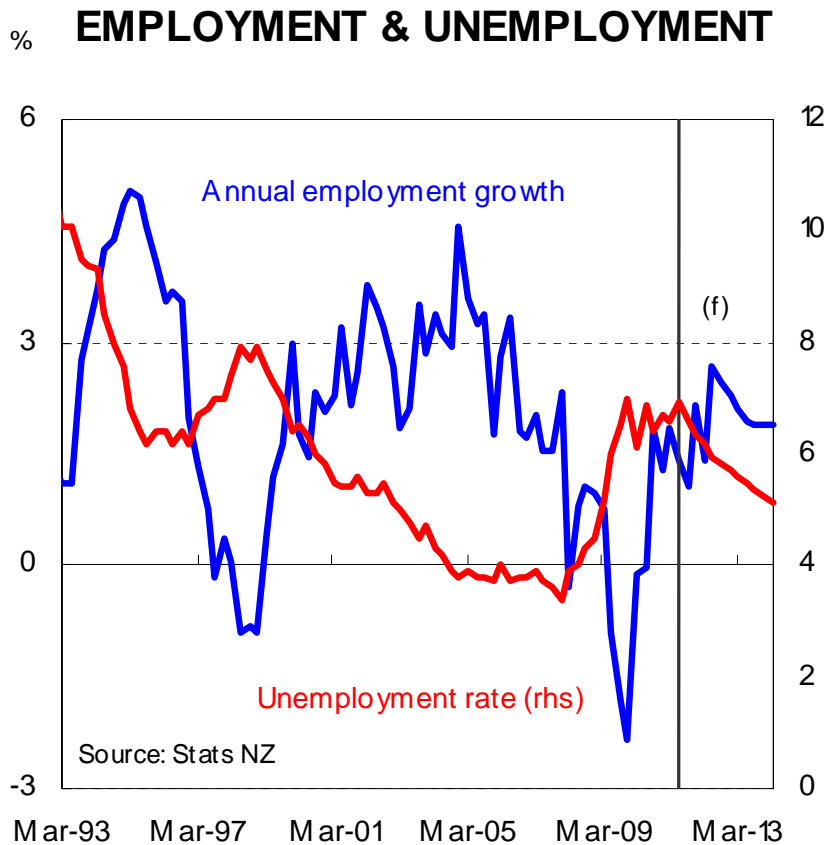
Topics

- Main impacts of the Christchurch earthquake
- Global economy
- Households
- Exports – commodities
- Interest rate outlook
- NZD outlook

Overview: earthquake influences on Christchurch

- Significant short-term disruption
 - Some CBD & other businesses able to relocate
 - Others unable to – no facilities or dependent on CBD itself
 - Human factor: emigration (5%?), family security first
 - Financial strain – using up savings, emergency loans
- Long-term impacts
 - Tourism industry in ChCh impacted for a year or more.
 - ChCh population size and growth probably smaller
 - Several years of reconstruction.

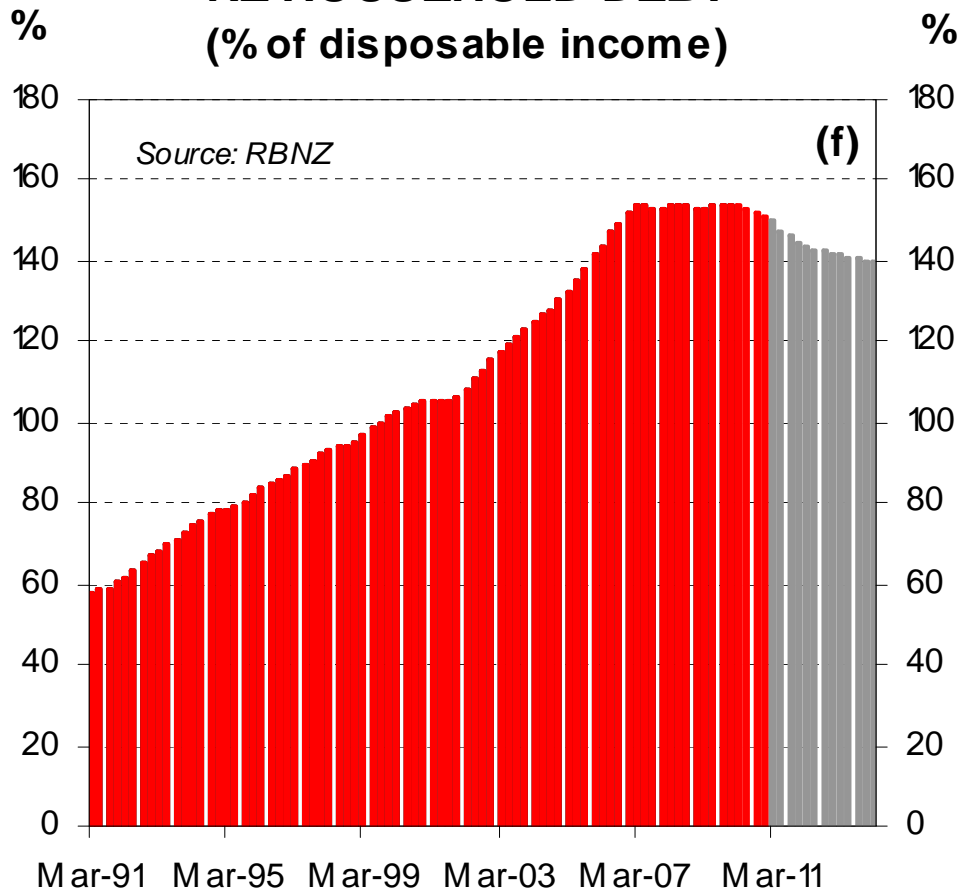
Labour market recovery will be gradual



- Underlying improvement in labour market over Q1, following weak H2 2010.
- Feb earthquake to lift unemployment from Q2.
- Unemployment to gradually decline.
- Shortages in skilled labour already emerging.
- Construction boom to boost employment from 2012

Issue: how long do households keep belt tightening?

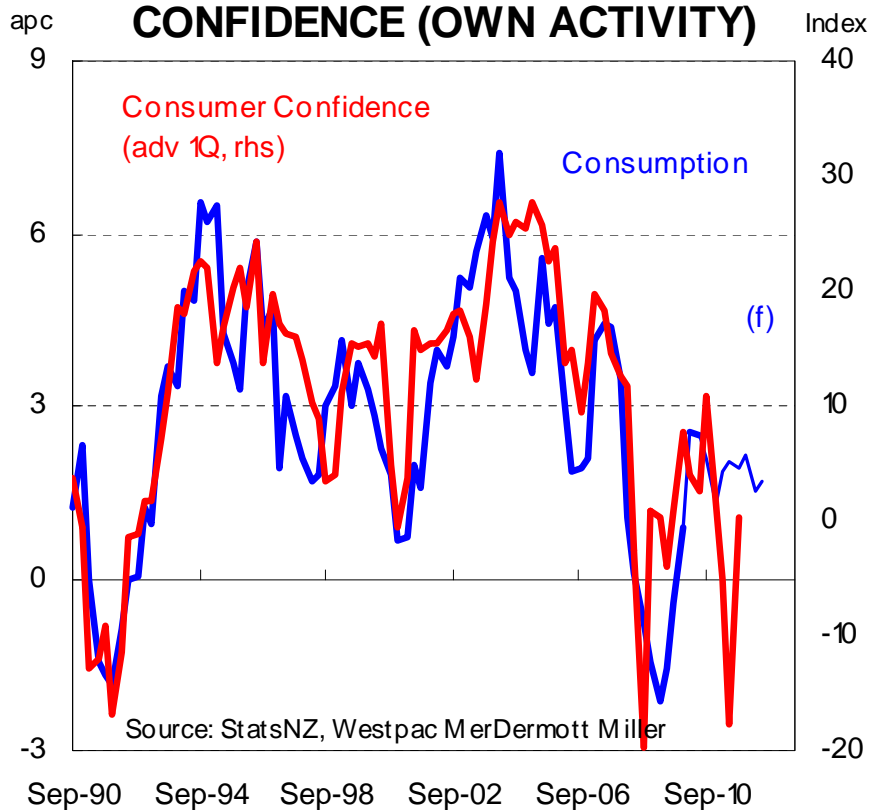
NZ HOUSEHOLD DEBT (% of disposable income)



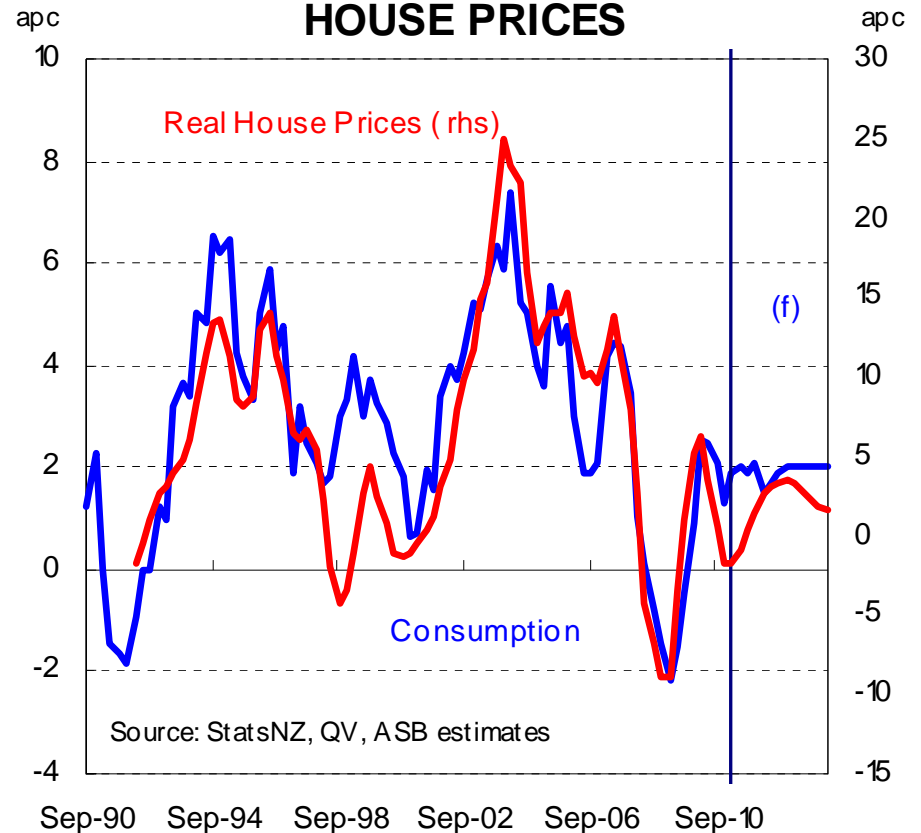
- 1990s and 00s: debt growth outstripped income growth.
- Income growth now outstripping – likely to do so for foreseeable future?
- Implications are subdued retail spending growth and housing activity in 2011.
- In wake of tax cuts households seem to be lifting savings rather than spending.

Consumers holding back, earthquake weighs on outlook

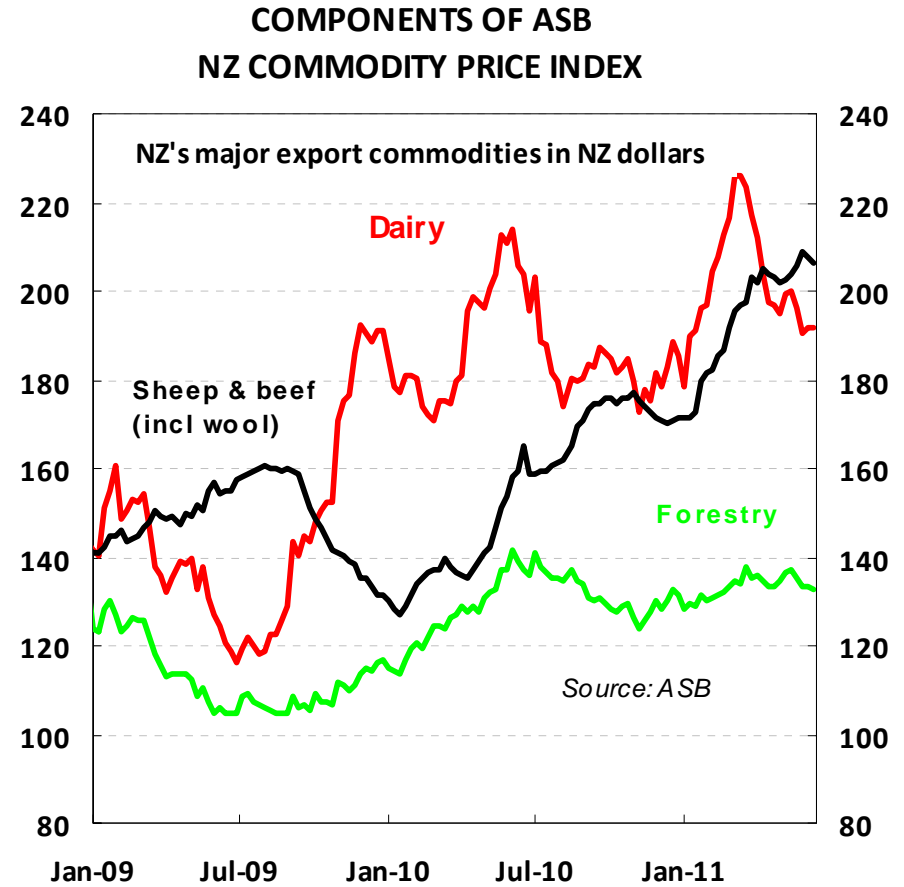
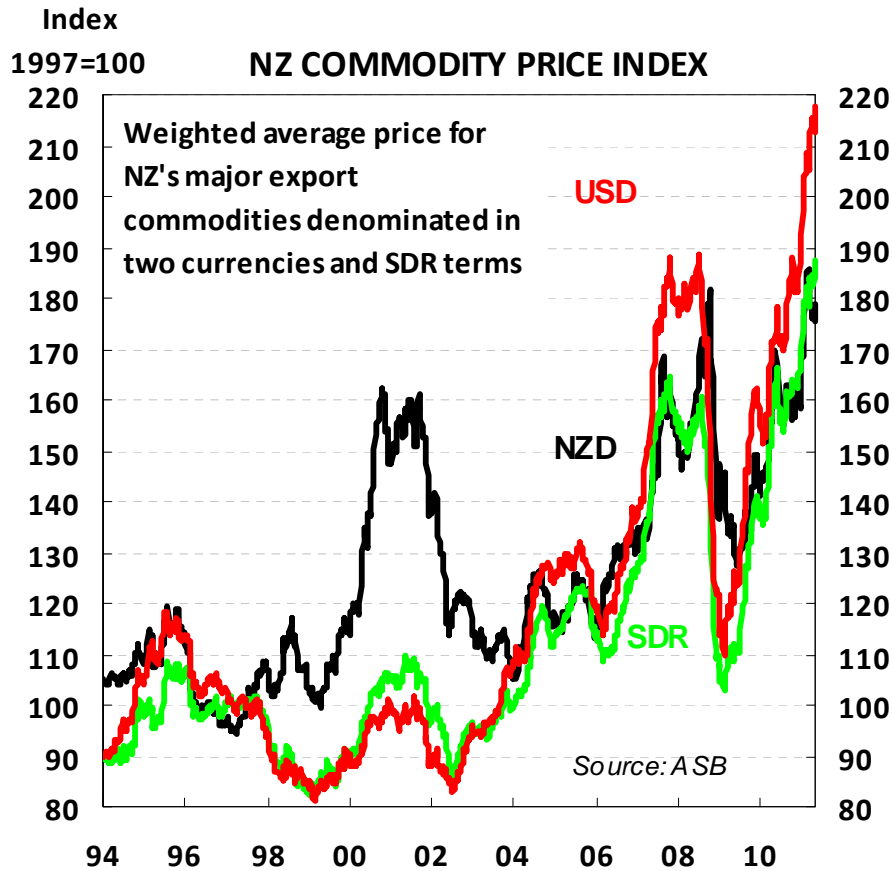
CONSUMPTION & CONSUMER CONFIDENCE (OWN ACTIVITY)



CONSUMPTION & HOUSE PRICES

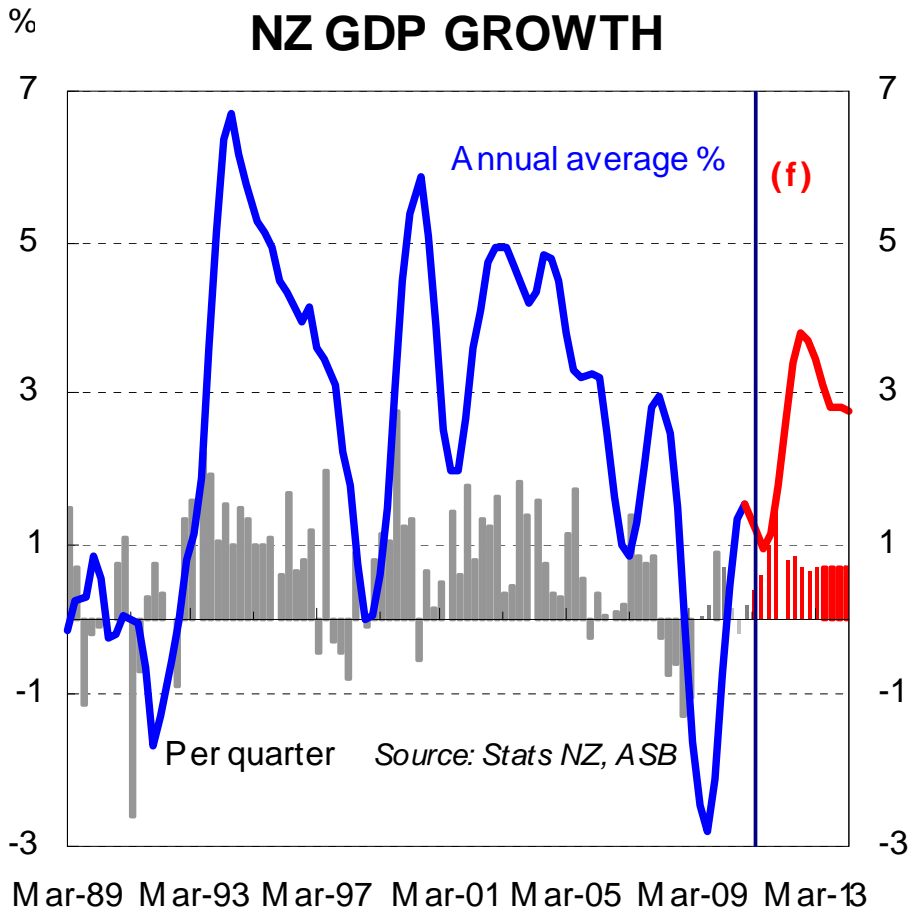


Brighter export story



GDP growth – gradual underlying lift

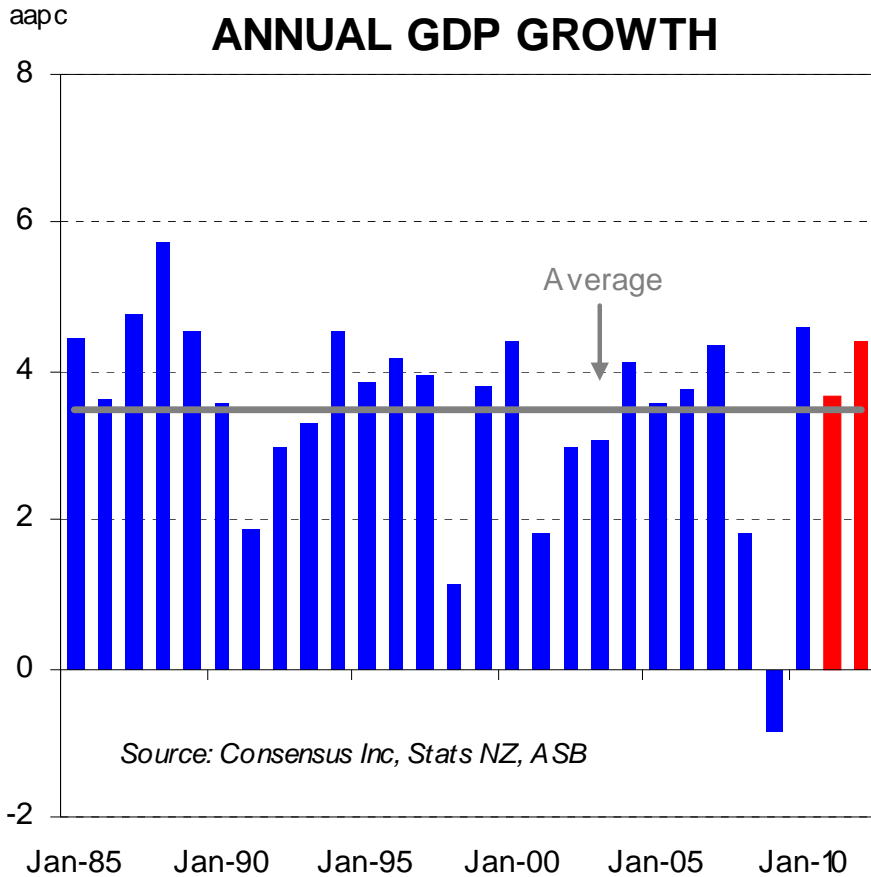
NZ GDP GROWTH



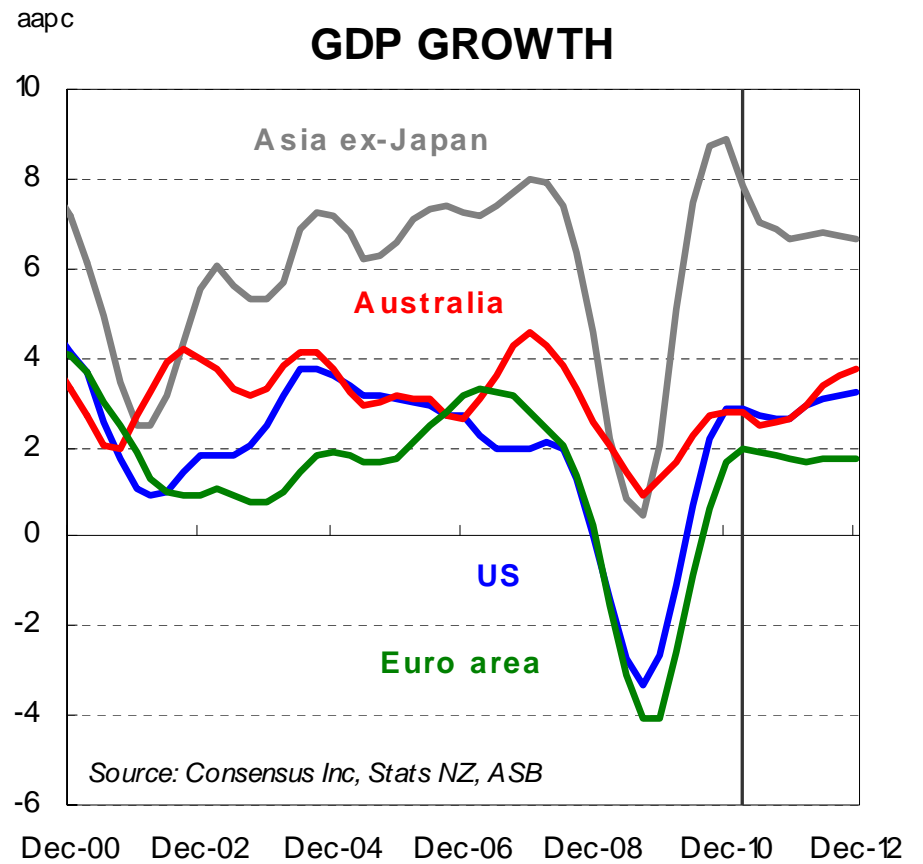
- Slow underlying momentum at start of year ex-ChCh.
- World Cup boost in H2.
- Earthquake reconstruction delayed until late 2011/ early 2012
- Household caution lingering to a degree.
- Government austerity.
- Equipment CAPEX to lift.
- Strong export earnings.

The global outlook: good and the bad

**NZ TRADING PARTNER
ANNUAL GDP GROWTH**

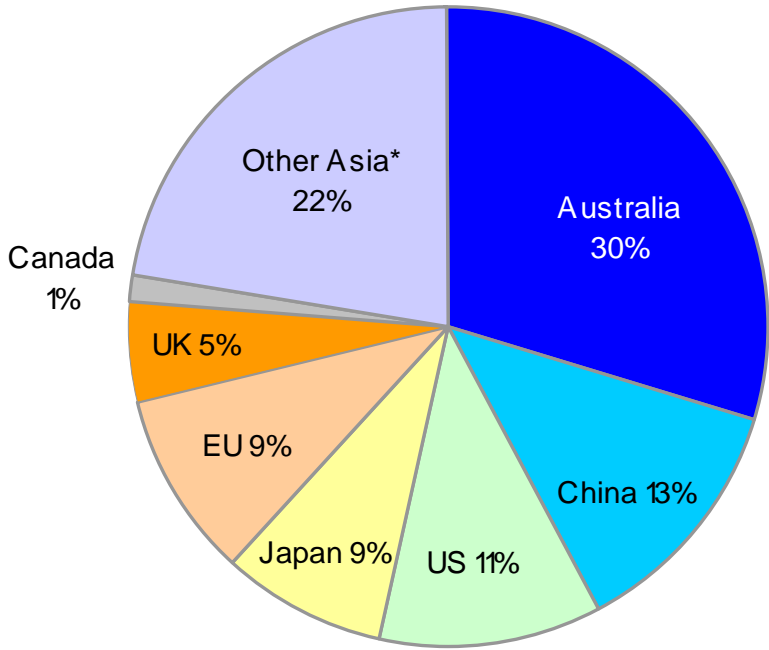


**NZ TRADING PARTNER
GDP GROWTH**



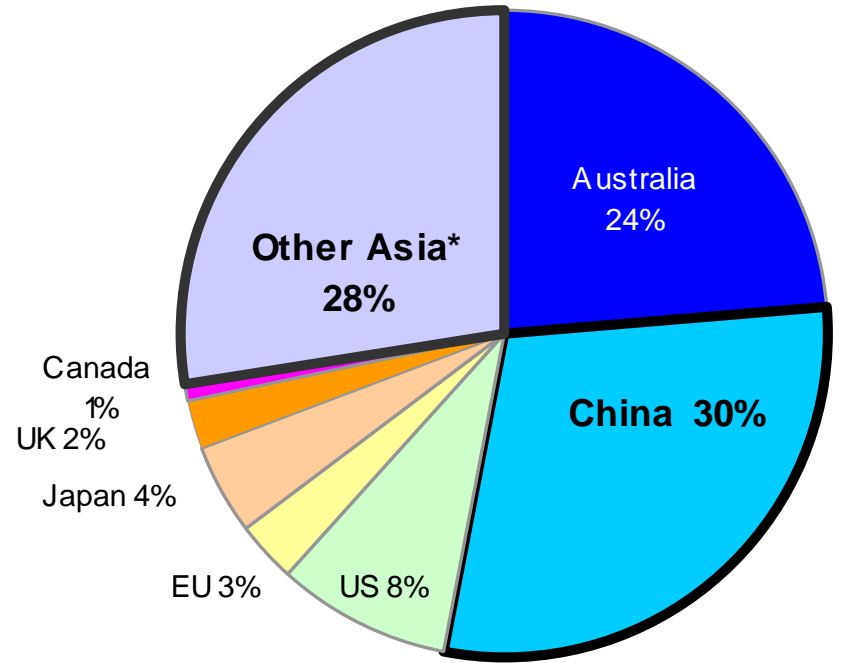
Trade linkages to Asia increasingly important

MAJOR TRADING PARTNERS
share of top 16 trading partners
by export receipts



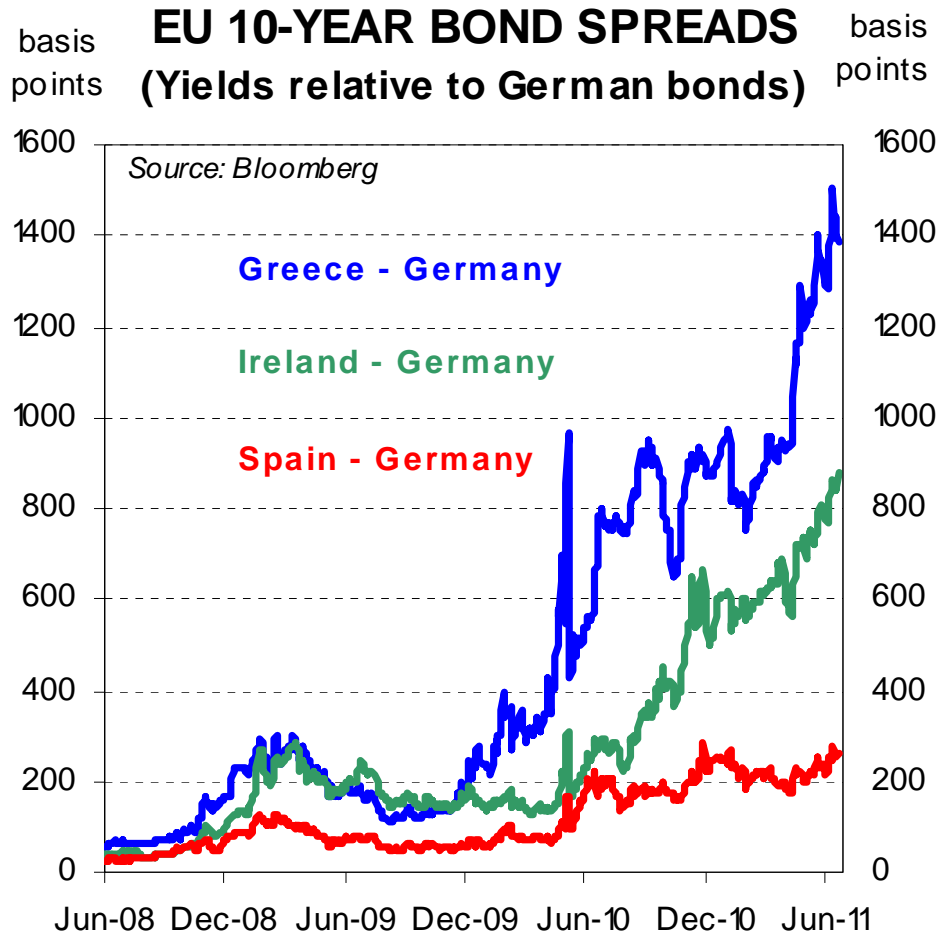
* Other Asia includes South Korea, Indonesia, Malaysia, Thailand, Taiwan, Hong Kong, Phillipines, Vietnam

MAJOR TRADING PARTNERS
share of 2011-2012 trading partner growth



* Other Asia includes South Korea, Indonesia, Malaysia, Thailand, Taiwan, Hong Kong, Phillipines, Vietnam

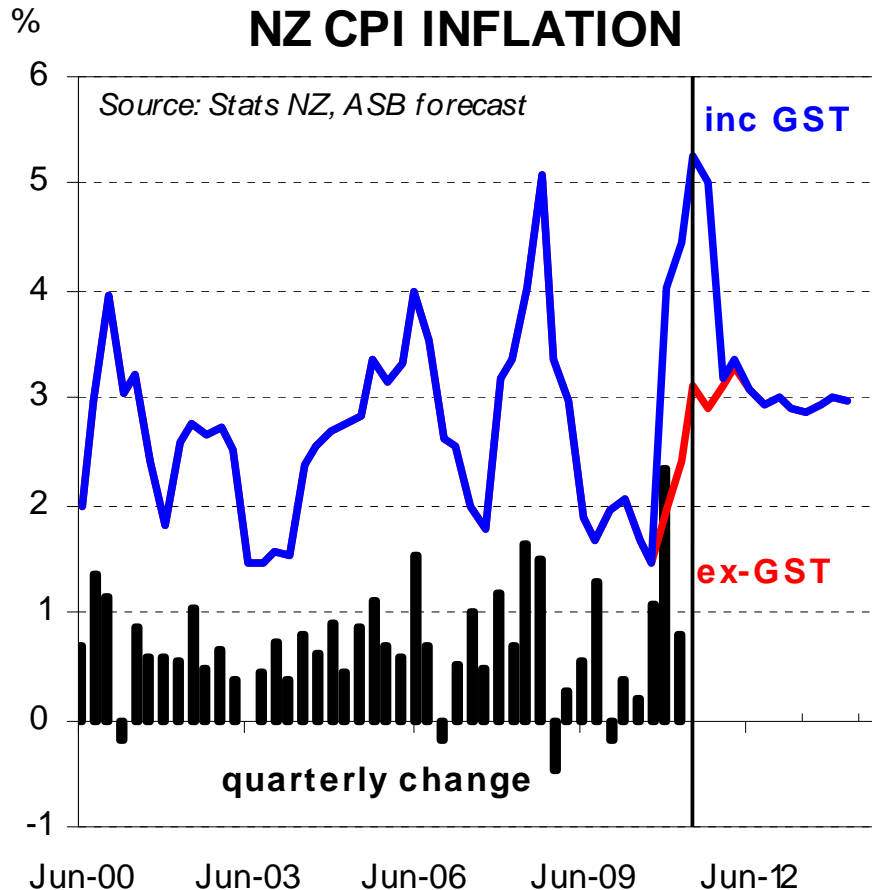
The global outlook: risks



- Eurozone debt concerns
 - Greece in the spotlight
- Middle East tensions
 - oil prices
- Japan
 - Global supply issues
 - Medium-term upside to NZ

NZ Inflation: breathing room for now

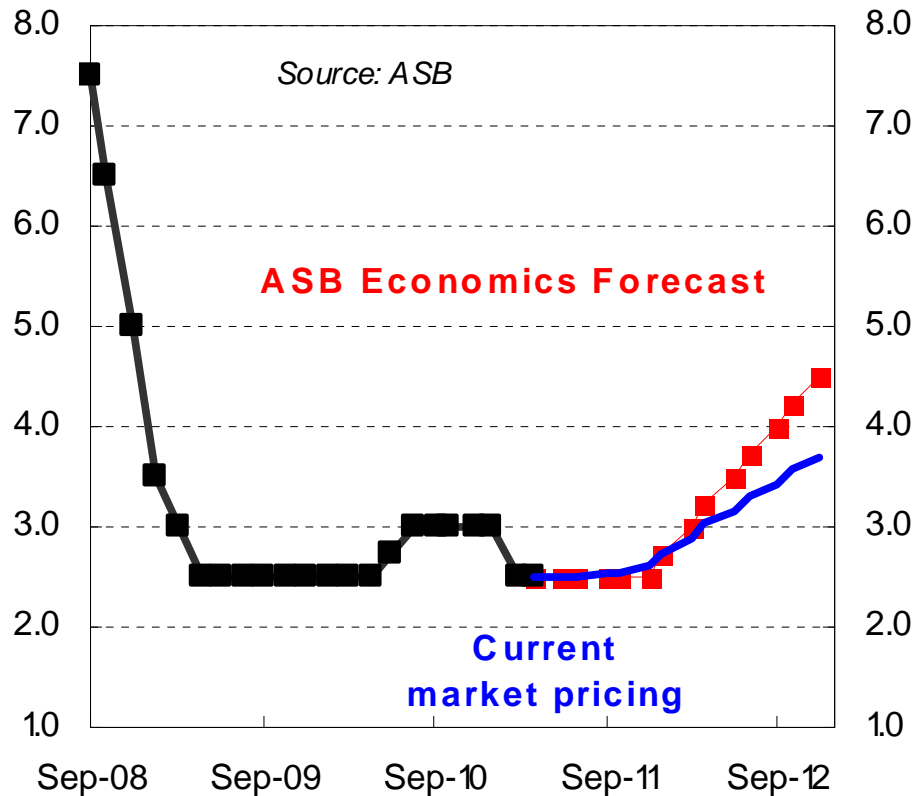
NZ CPI INFLATION



- Underlying inflation pressures very subdued, due to weak economy H2 2010.
- Breathing space on the inflation front for now.
- Nonetheless, earthquake will increase inflation.
- RBNZ to look through direct effects, but wary of persistent cost pressures spilling over into the wider economy.

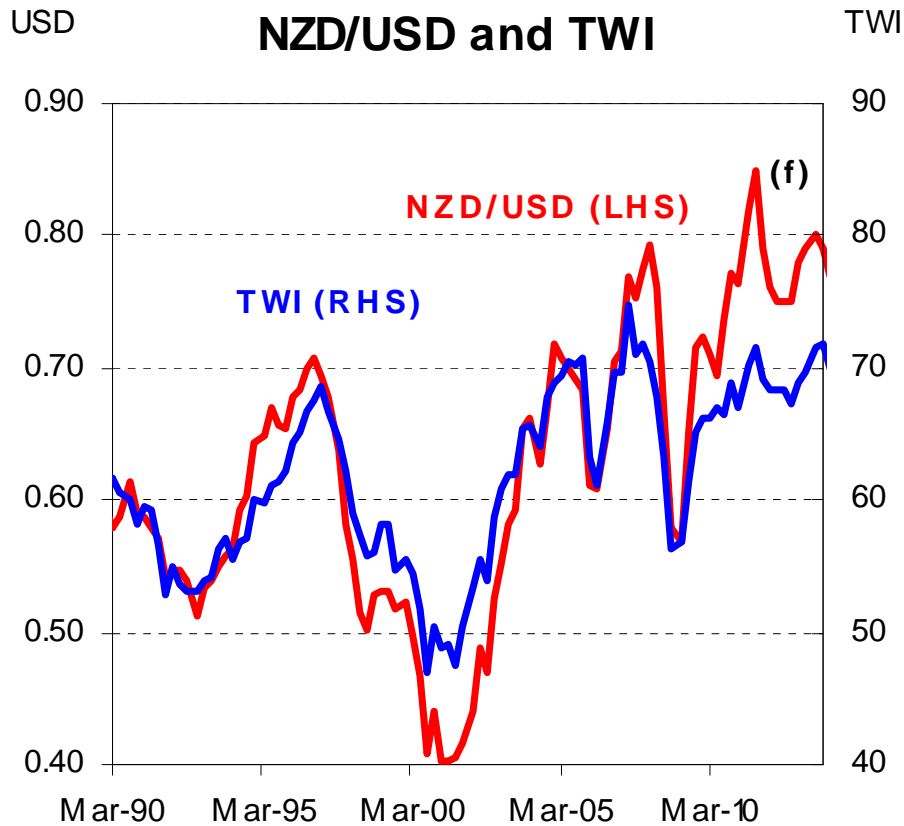
RBNZ: on hold until early next year

% p.a. **OCR FORECASTS** % p.a.
(vs. pricing of overnight index swaps)



- RBNZ to leave OCR on hold over 2011.
- Economic disruption in ChCh and uncertainty weigh on outlook.
- OCR increases from January 2012 contingent on:
 - Underlying economic recovery. Close eye on rural spending.
 - Reconstruction activity.

NZD: likely to stay strong



- NZD underpinned in short term by high commodity prices and USD weakness.
- Gradual decline in H2 2011 as economic outlook improves in major economies.
- NZD likely to linger on high side of past averages. Exception is NZD/AUD: 0.75-0.80 ballpark.

Summary

- Debt consciousness hanging over households, farmers.
- Commodity income story very positive.
- Gradual underlying recovery.
- Southland has been soft, but is geared towards sectors that will show the most promise.
- OCR timing influenced by reconstruction boom.
- NZD: short-term strength, modest falls from late 2011.

Last but not least...

ASB for
banking & economic information
www.asb.co.nz

See ASB Reports, under
“About ASB”

Disclaimer:

Views expressed in this report are those of the authors as at the date of this report and are based on information and sources believed but not warranted to be correct. Any views or information, while given in good faith, do not necessarily reflect the views of ASB and are subject to change without notice. Neither ASB Bank Limited nor any person involved in preparing this report accepts any liability for any loss or damage whatsoever that may directly or indirectly result from any views, information or omission contained in this report.

The screenshot shows the ASB website's Media centre page. The browser title is "Economic - ASB Bank New Zealand - Microsoft Internet Explorer". The address bar shows "https://www.asb.co.nz/section177.aspx". The ASB logo is prominently displayed at the top, with the tagline "creating futures...". Below the logo is a navigation menu with tabs for Home, Personal, Business, Rural, and Creating Futures. There are also buttons for CONTACT US, SEARCH ASB, and LOGIN. The main content area is titled "Media centre" and includes a sub-menu for "Media contacts". The page is divided into several sections: "ASB / Main Report Regional Economic Scoreboard" with a list of reports from 19/08/10 to 18/02/10; "Business Weekly Economic Report" with a list of reports from 08/11/10 to 26/10/10; "Economic Note" with a list of notes from 04/11/10 to 28/10/10; "Monthly Calendar" with a list of calendars from 29/10/10 to 01/09/10; and "Quarterly Economic Report" with a list of reports from 21/10/10 to 19/04/10. On the right side, there is a "Latest reports" section with a list of reports from 15/11/10 to 08/11/10. The page is styled with a yellow and grey color scheme.