The State Of the Economy

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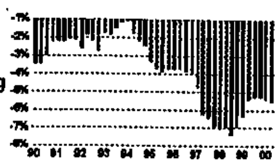
an Infometrics Presentation

The Devil In Disguise

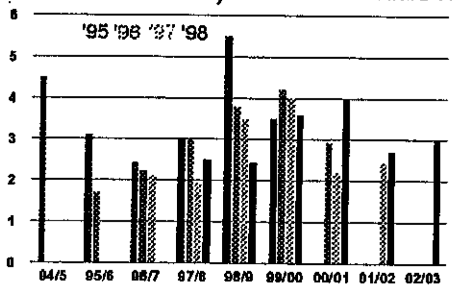
BNZ Finance Seminar June-98

1. Asia, US , Australia
2. The Forecast from Hell
3. Sector responses
4. Property and building
5. The end



GDP Forecasts: Consistent & Patient

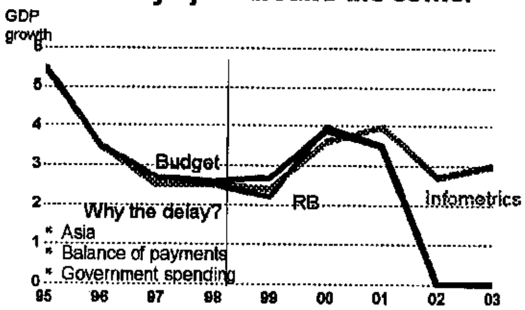
A Growth Recovery Still To Look Forward To



Asia Update

- surging balance of payment surpluses - no imports of raw materials!
- exports slumping - no finance
- currencies weak still, interest rates high - debtors in dire straits!
- politics not conducive to hard edge reforms
- capital flight again, few gutsy investors

Recovery - just around the corner



America: How Long Can This Go On ?

GDP virile - growth at nearly 6%pa over March qtr

Households booming - 6% rate

Labour market & inflation - few pressures

Dollar being pushed up by bolt-hole effect

Exports flagging - 98q1 first fall in 4 years

Implied Fed Direction - ultimately tighten to chasten

Contributions to Current Account Rot

$ billion

	Households	Businesses	Government	Total
94/95	-2.3	-0.3	+0.8	-1.8
95/96	-0.3	-1.2	+1.2	-0.3
96/97	-0.6	-1.7	-1.0	-3.3
97/98	+0.5	+0.9	-2.6	-1.2
Total	-2.7	-2.3	-1.6	-6.5

The $5 bn blow to credibility

Japan- drifting onto the rocks

Recession -

- **BoP surplus burgeoning - up 50% over 18 mths**
- **Yen is shrivelling - down more than 20% over year**
- **Savings are being moved abroad because:**
  - now allowed to invest abroad
  - no confidence
  - no attractive local investments

High Noon - fix it or - world into recession

Australia

1997 Stance

Deny Asia mattered

Happy to be unbalanced - poor exports, party at home

Current account - tomorrow's problem

1998 - under pressure

Protect the dollar - cost $0.5 bn (taxpayers dumb)

Resist rise in interest rates

Economic strategy distracted by politics

Adding Value - A Potent Strategy
Moving up the value tree

"Fletcher Challenge Forests has pursued a strategy to reduce our reliance on ....logs, particularly for low value end-use applications in Asia.
The purchase of processing capacity, ...investment in new remanufacturing capacity, equity participation in distribution in North America are all significant steps to deliver on this strategy of adding value to logs."

Paul Fowler, Chief Executive Fletcher Challenge Forests

The Forecast from Hell

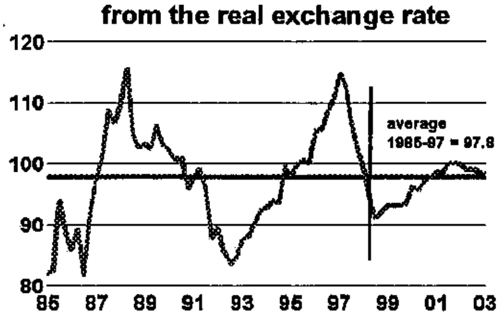
- How many economies in serious strife?
- Unstable spiral develops - currency falls, bigger debts, weaker economy
- US hobbled by panicked foreign capital flight

Adding Value - A Potent Strategy

Lamb industry since 1985:

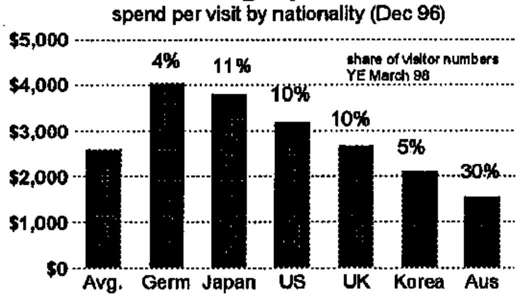
- Number of sheep down 30% - *amount of land needed down too*
- Lambing percentage up 16%
- Lamb weights up 16%
- Real value of sheepmeat exports up 5% - *and land freed up for dairy*

Real relief from the real exchange rate



The big spenders

spend per visit by nationality (Dec 96)



Asia's Silver Lining

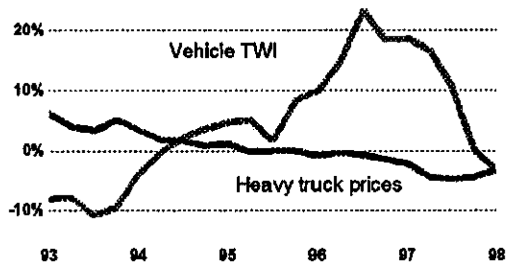
Recession in Asia will:

offsets the benefit of our cheaper dollar

so commodity exporters will either die or add value

Prices not as volatile as the currency

annual percent change



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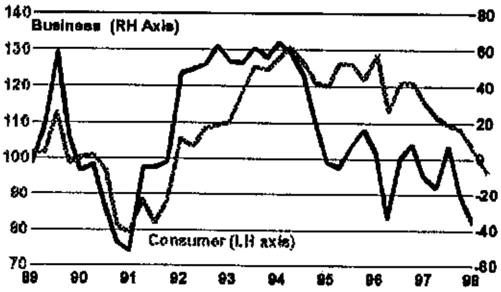
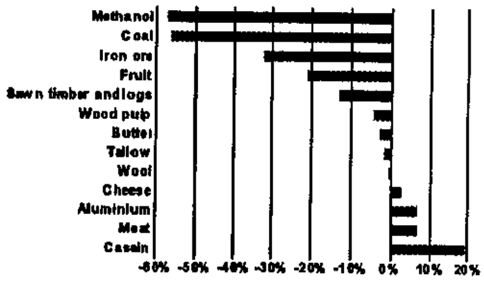
Household & Business Confidence Slumped



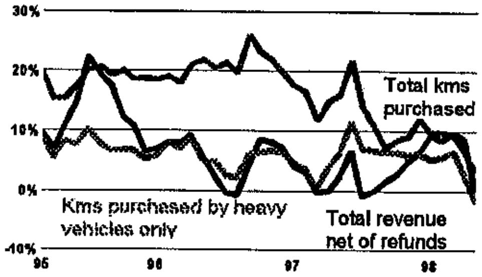
Asia hits the basics

Change in export tonnages (6mths ended March 98 cf same period in 1997)

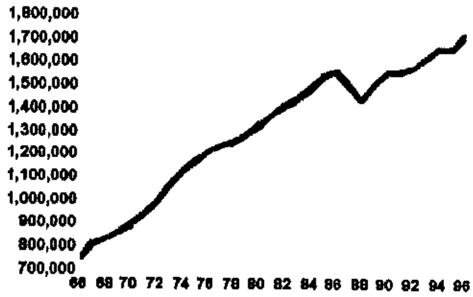


Road user charges

3 month annual % change

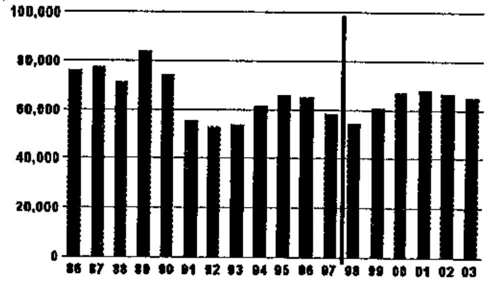


Crowded roads - passenger cars



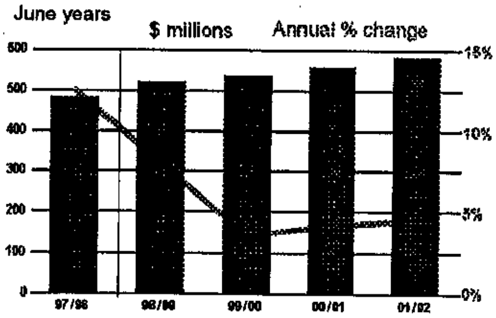
New car sales revive .... a little

Annual totals



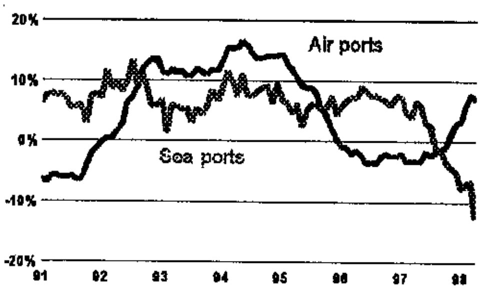
Forecast total RUC revenue

June years



Shipping and air tonnage

YE annual % change

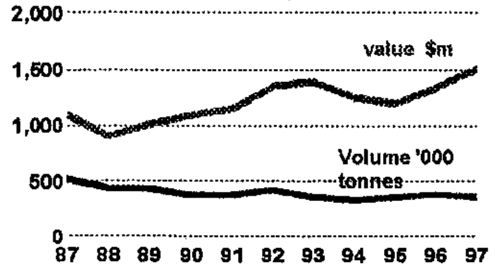


Issues for transport sector

- Shift to value added, lower weight exports (bones are no longer transported in carcasses)
- Shift to smaller loads with faster response times - get the costing and pricing right
- Greater concentration of economic activity with a more efficient transport system
- Increased volume of forest resource
- Milk volumes will continue to rise slowly

Adding value and reducing weight

New Zealand lamb exports



Internet Trends

Radio -> TV-> Internet ; 30->15->2.5

80% business-to business

1997: GE $1 bn of Net-based purchases, 20% saving on input costs. 2000 expect $5 bn

Travel Industry: 1998 =11% online sales, 2002= 35%
2002: Books 10%, software 10%

1997: 46% sites profitable - up from 30%

Structural Changes in Business

- **Trend to Smaller Firms**
  - The impact of IT investment
  - Labour displacement
  - Outsourcing
- **Implications**
  - The size of average NZ firm shrunk 20% over last 10 years. How much further is possible?
  - Fragmented demand - office, services
  - Increasing numbers entrepreneurs

Internet and Electronic Pricing

From price lists to auction pricing

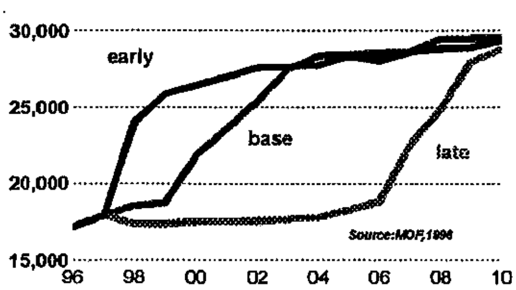
Off-the-shelf price bid/offer packages

Goods and services priced more efficiently

Prices become an even more important economic signal

Price differentiate only on service, quality, features, safety, ..etc

Forest harvest - better late than never



Inflation Pressures

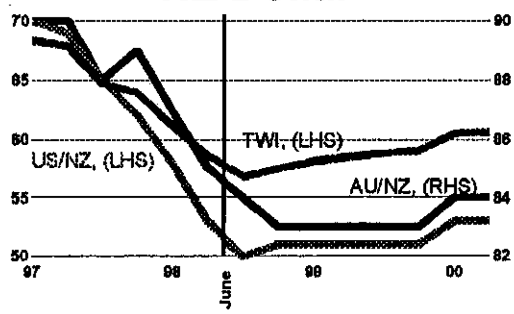
- One-off deregulation(s)
  - tariffs
  - parallel imports
  - electricity reform
- Housing market turns mushy
- Spare capacity
- Weaker Global Commodity Prices (oil $11/bl)
- More competitors at home
  - petrol
  - telecomms
  - airlines - Origin Pacific
- Cheap imports

But inflation will rekindle with the recovery

Parallel Importing

- Internet markets unleashed - discipline NZ outlets
- Lowest global price
- Below normal world prices - while stocks last!
- Puts more emphasis on efficiency of buying and distribution systems

NZ Dollar



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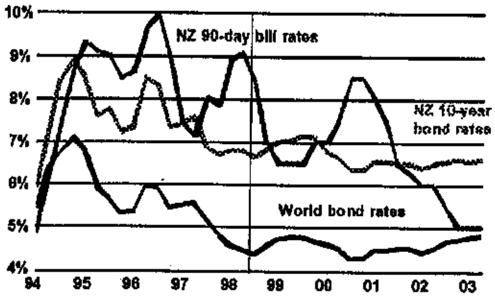
NZ Risk Premium to stay up

Quarterly average



What it means for New Zealand

average next three years

	Base	[illegible]
H/H Spend	2.9	1.2
Business invest	6.4	3.3
Exports	5.5	4.4
Imports	5.1	4.1
GDP	3.4	1.6
Inflation	1.6	0.8
Bill rates	7.6	5.7
TWI	59.6	52.6
Unemployment	6.4	8.4
Housing	1.7	-1.0

THE END