

A COUNTRY EXECUTIVE GUIDE TO THE AUSTRALIAN AND NEW ZEALAND ECONOMIES

INTERNATIONAL CEO FORUM WEBINAR

15TH NOVEMBER 2016

**Australia and New Zealand –
population, economic structure,
trade and politics**

Australia ...



- ❑ has a land area of 7,692,024 sq kms (2,969,907 sq miles) – the sixth largest country in the world
- ❑ had a population of 23,943,907 at the end of December 2015 – the 52nd largest in the world
- ❑ has the world's 19th largest economy, with GDP in 2015 of US\$1,102bn (converted to US\$ at purchasing power parities)
- ❑ had a per capita GDP in 2015 of US\$47,644 (at purchasing power parities), the 18th highest in the world
- ❑ has been inhabited by indigenous Aboriginal people for at least 50,000 years
- ❑ was first 'discovered' by Europeans in 1616 (west coast), 1642 (Tasmania) and 1770 (east coast)
- ❑ was colonized by Britain beginning in 1788, initially as place for the transportation of convicts
- ❑ gained its independence from Britain in 1901
- ❑ is one of only six countries to have hosted the Olympic Games more than once

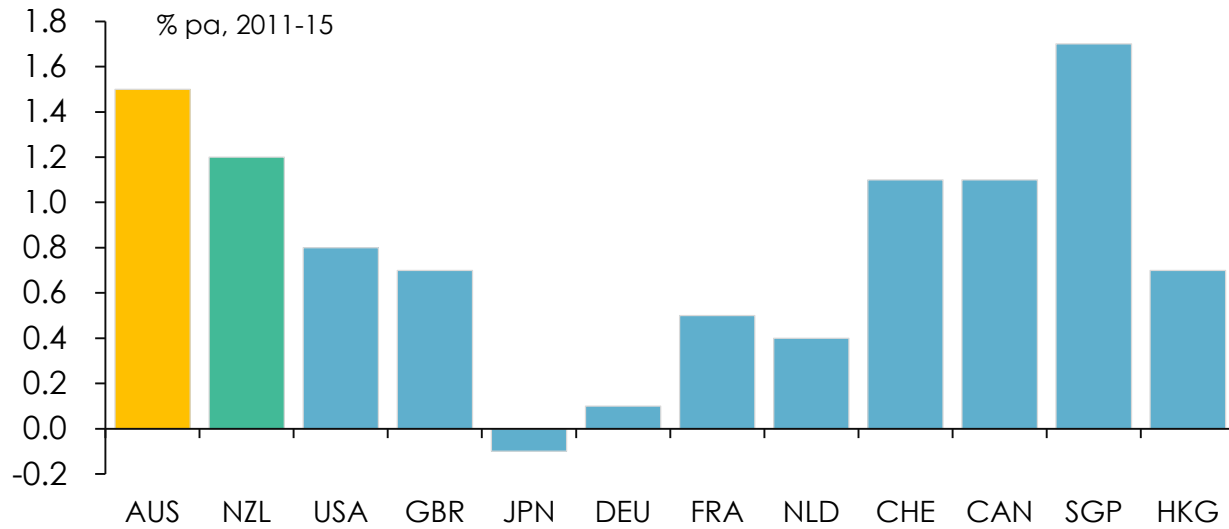
New Zealand ...



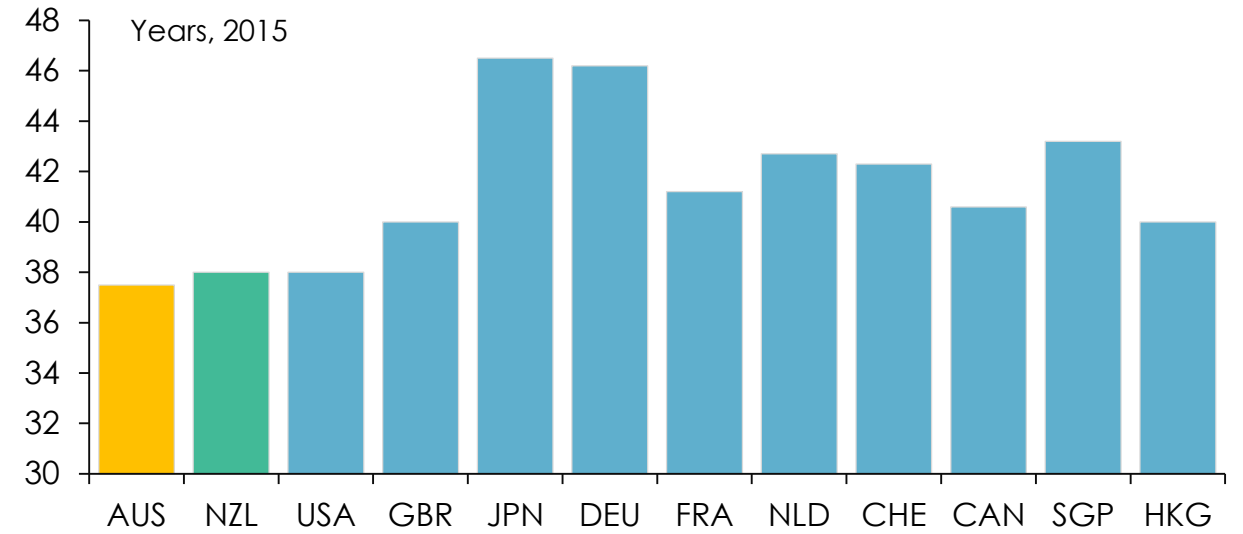
- ❑ has a land area of 268,021 sq kms (103,483 sq miles) – just under 25,000 sq km more than the UK (the North and South Islands of New Zealand are the 12th and 14th largest islands in the world, respectively)
- ❑ had a population of 4,544,355 at the end of December 2015 – the 117th largest in the world (just ahead of Ireland)
- ❑ has the world's 69th largest economy, with GDP in 2015 of US\$168bn (converted to US\$ at purchasing power parities)
- ❑ had a per capita GDP in 2015 of US\$35,136 (at purchasing power parities), the 34th highest in the world
- ❑ was uninhabited until around 1250-1300, when Māori people began arriving from Polynesia
- ❑ was first 'discovered' by Europeans in 1642
- ❑ began to be settled by Europeans in the 1820s
- ❑ was a British colony between 1840 (when the Treaty of Waitangi was signed with leaders of the Māori people) and 1910 (when New Zealand gained its independence)

Key characteristics of Australia's and New Zealand's populations

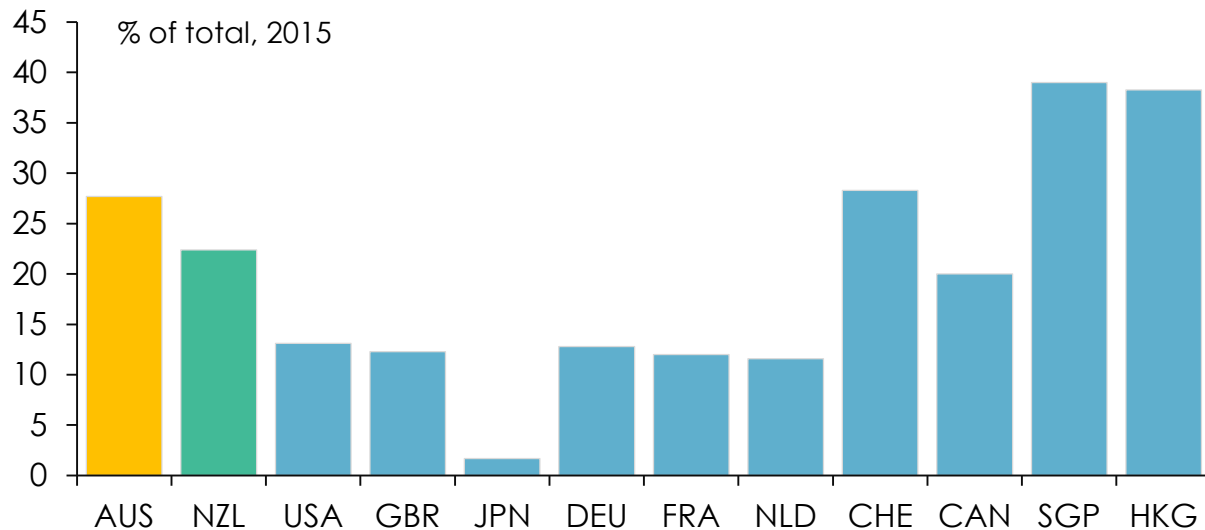
Population growth



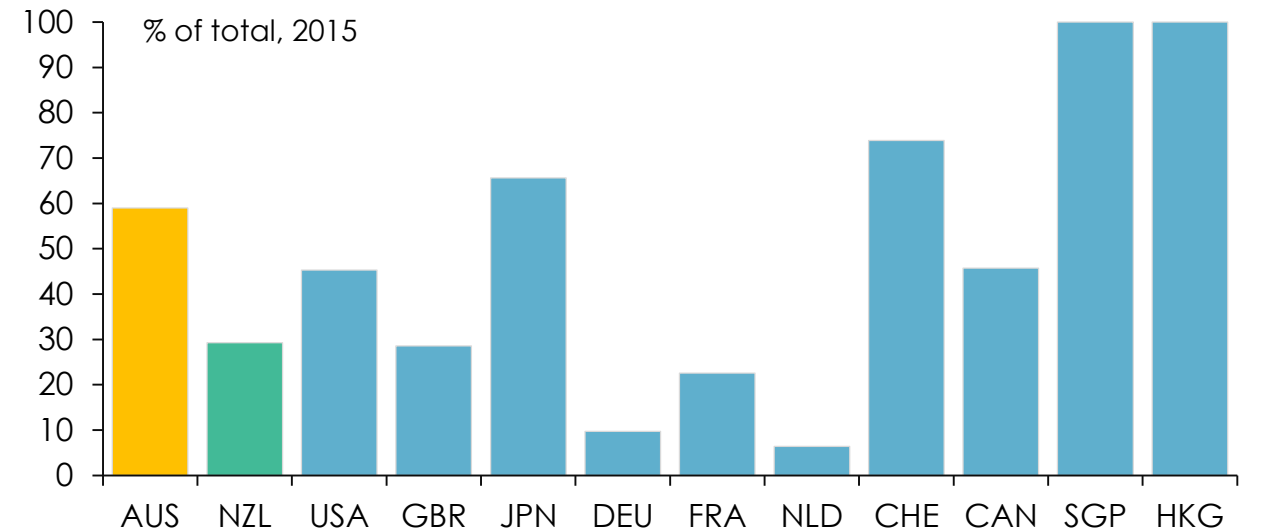
Median age



Foreign-born population



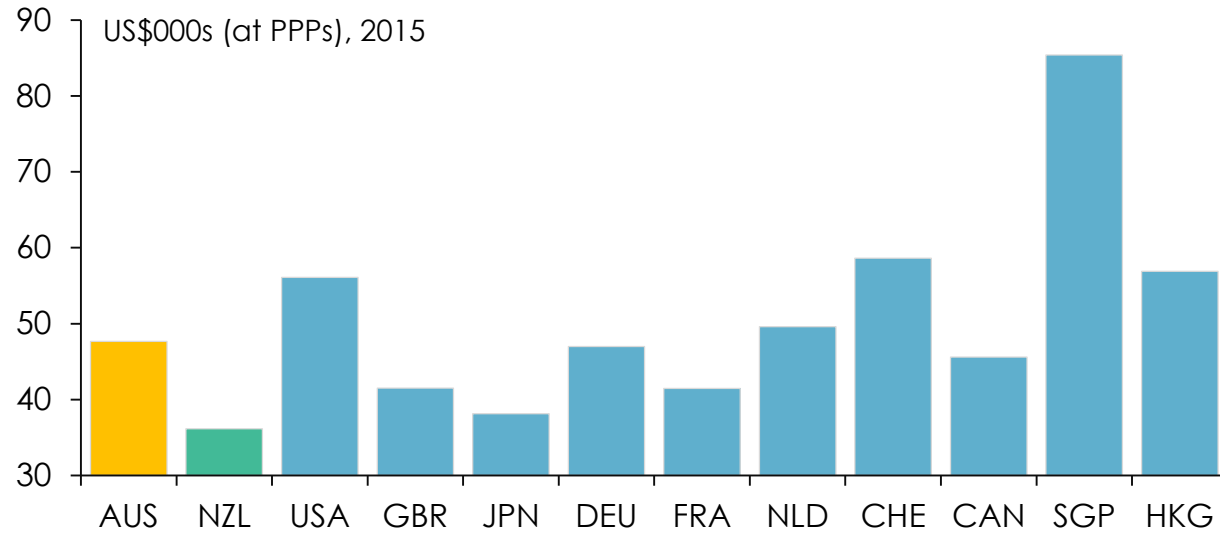
Population living in cities of over 1mn



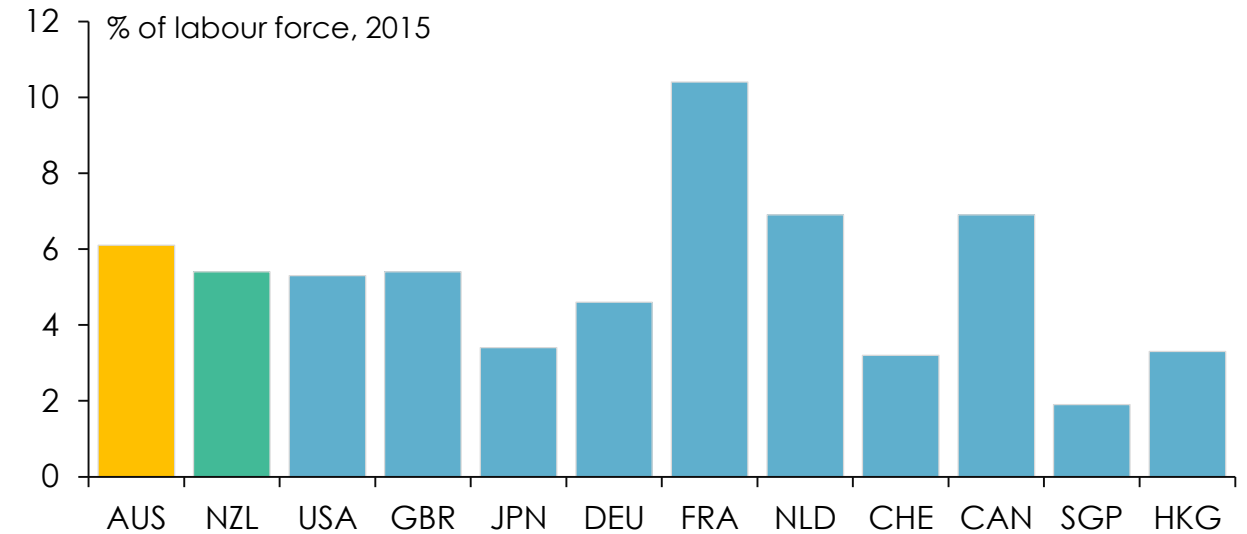
Note: GBR = United Kingdom; DEU = Germany; NLD = Netherlands; CHE = Switzerland.
Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators.

Key aspects of Australia's and New Zealand's economic performance

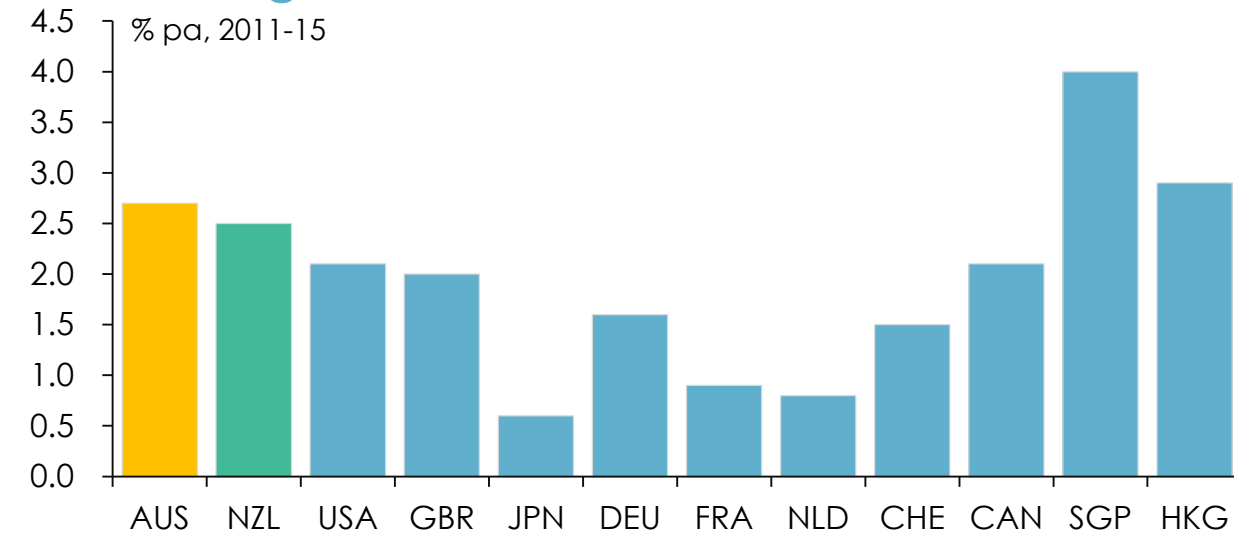
Per capita GDP



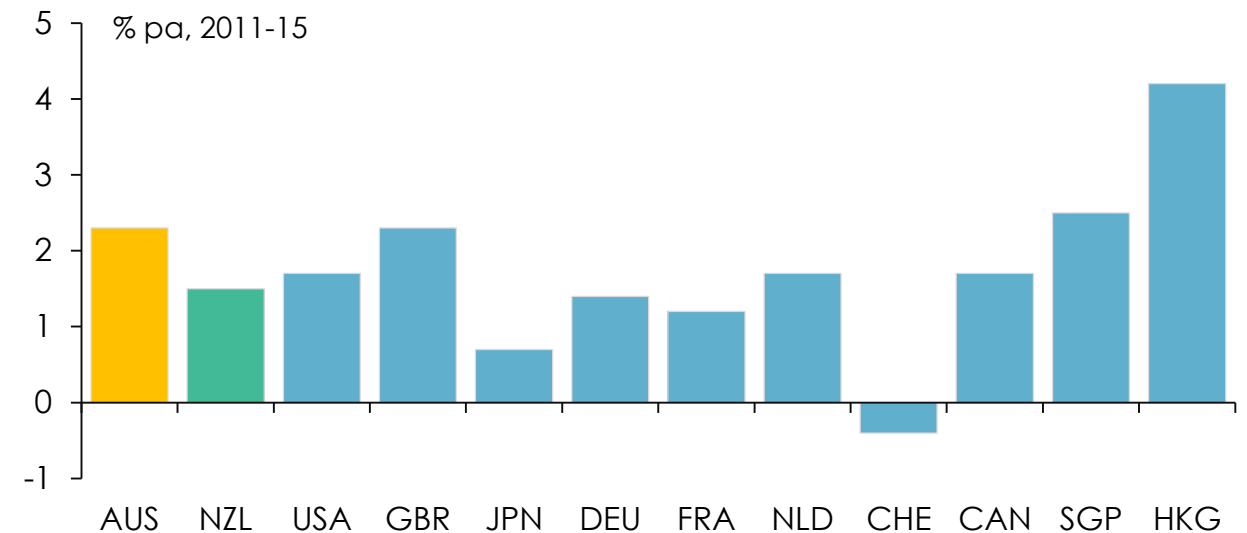
Unemployment rate



Real GDP growth

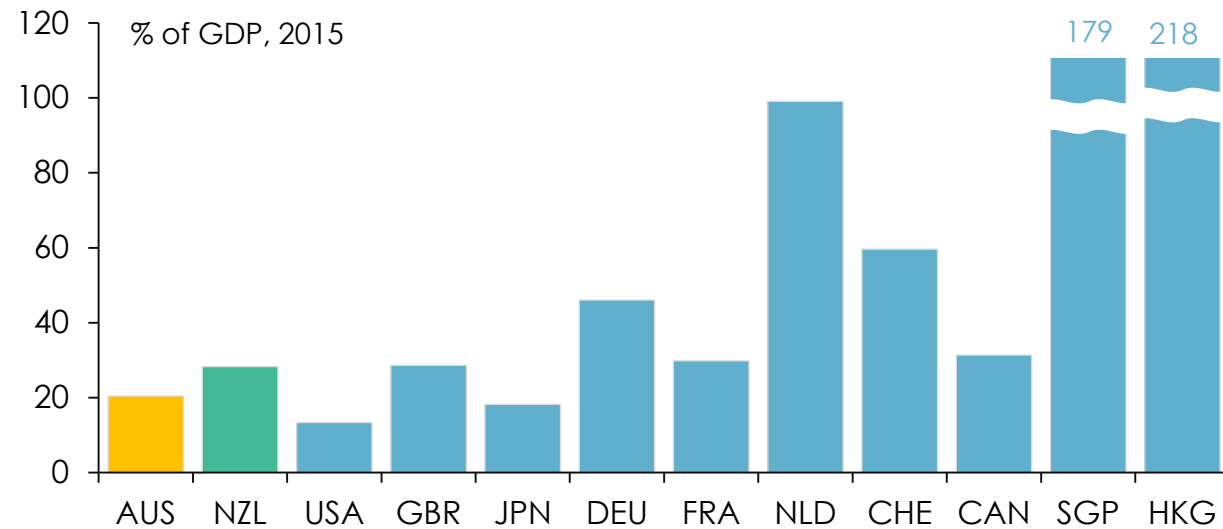


Inflation

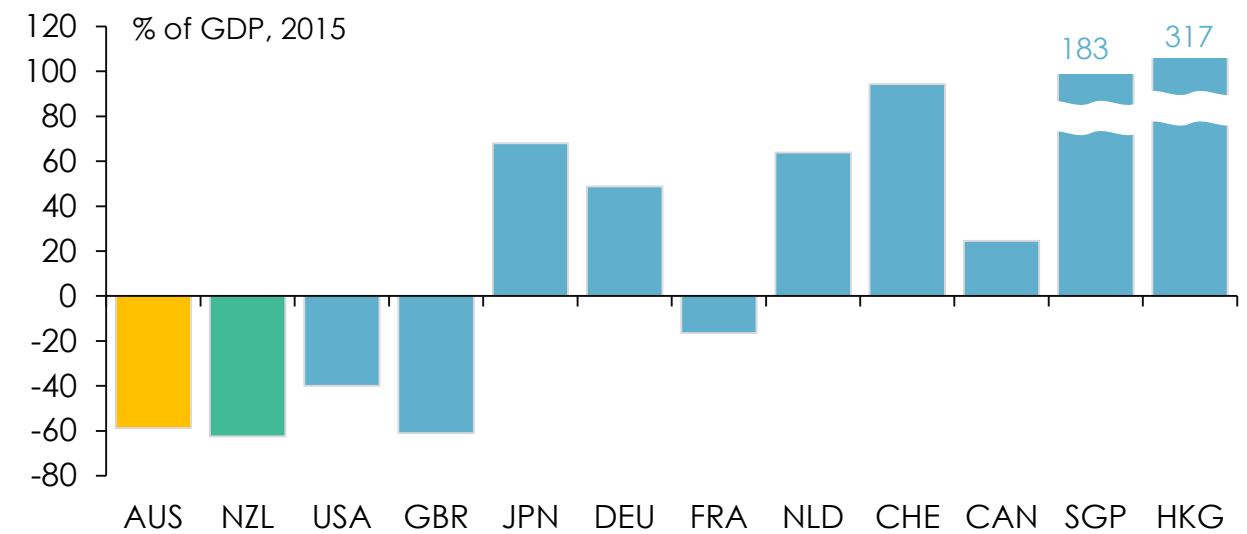


Key aspects of Australia's and New Zealand's external economic and financial positions

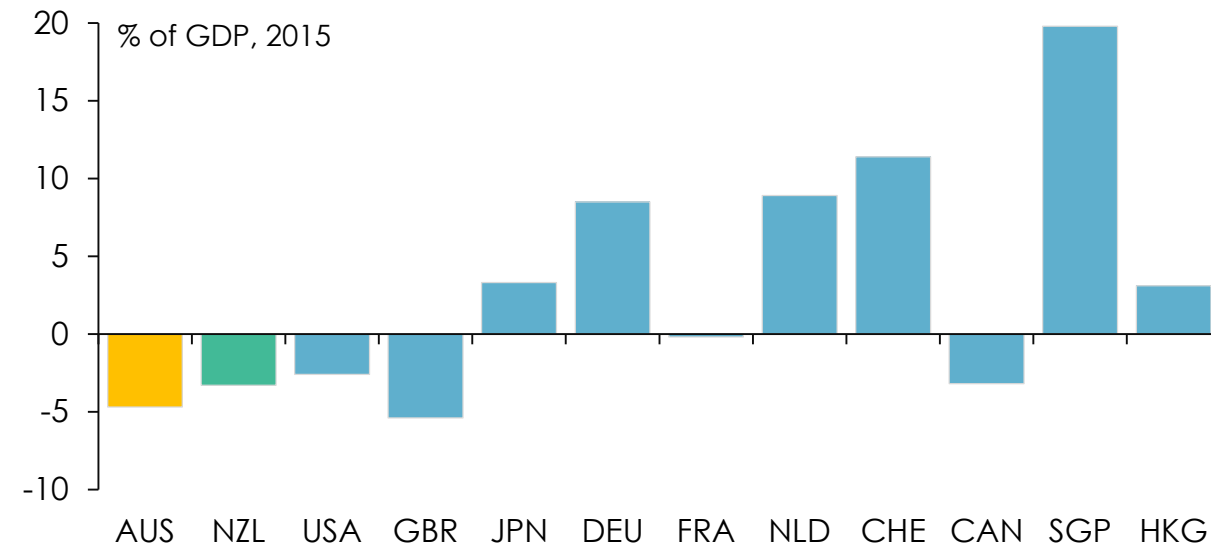
Exports of goods and services



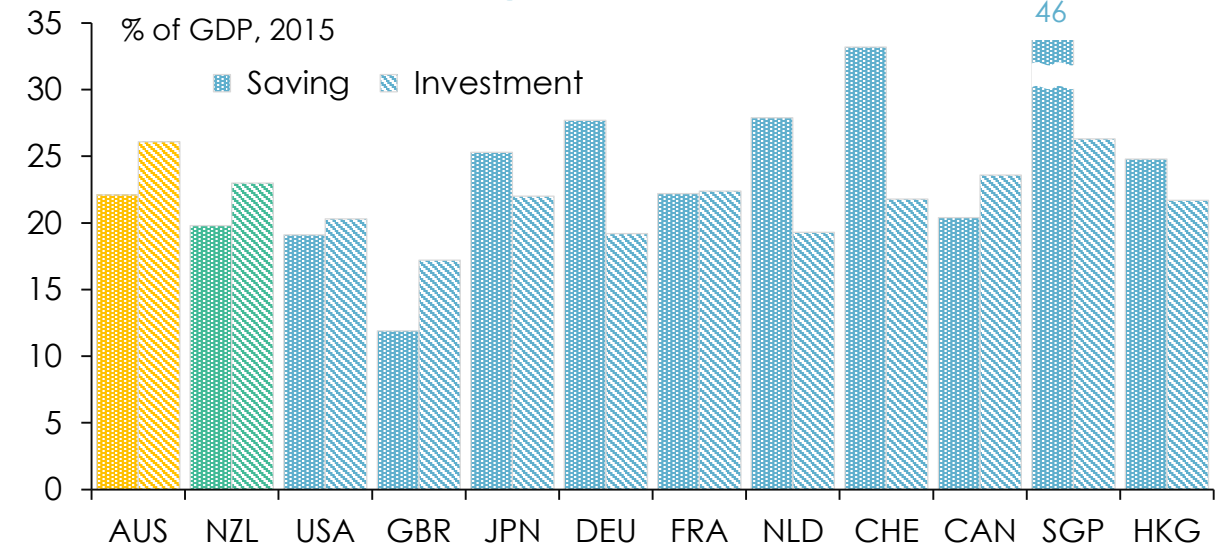
International investment position



Current account balance



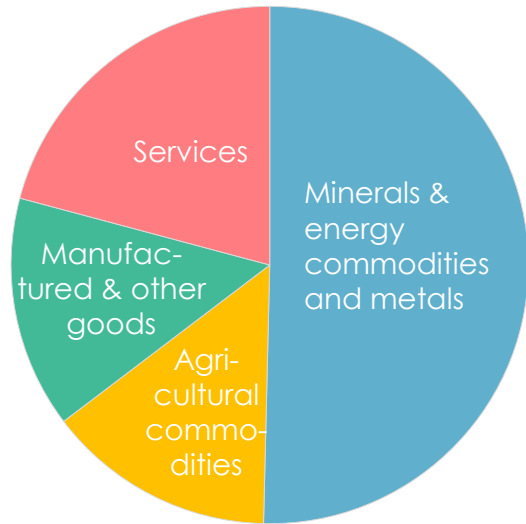
Gross national saving and investment



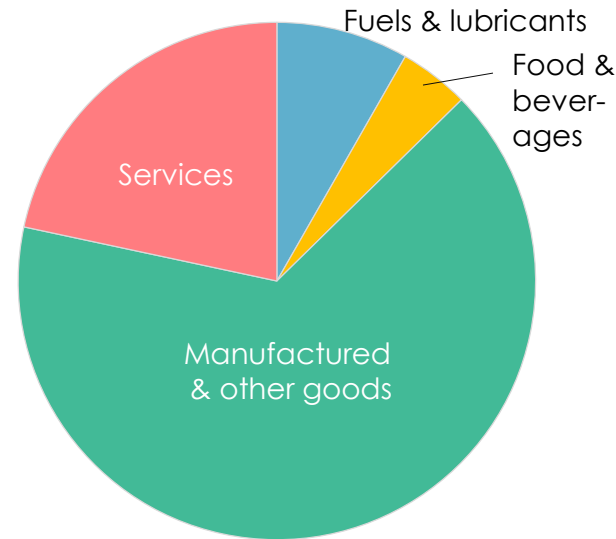
Sources: IMF, World Economic Outlook database; International Finance Statistics.

Australia's trade

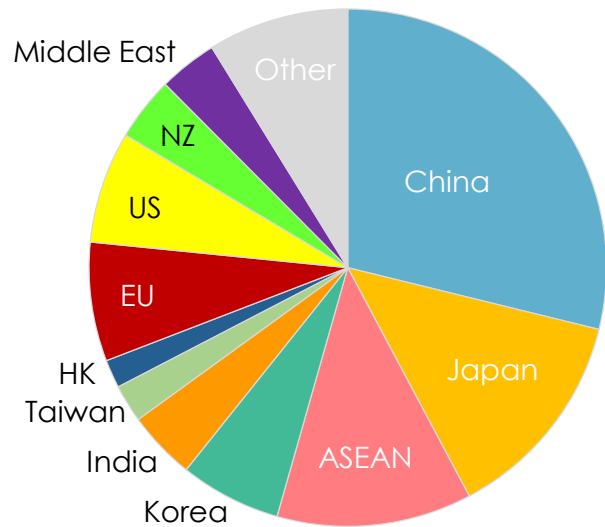
Exports by type, 2015



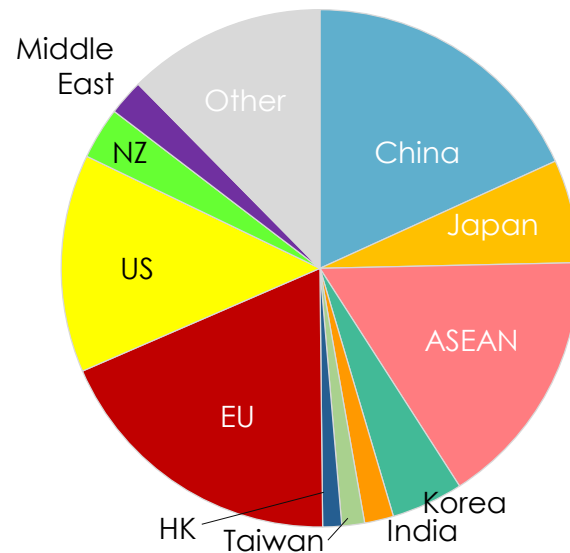
Imports by type, 2015



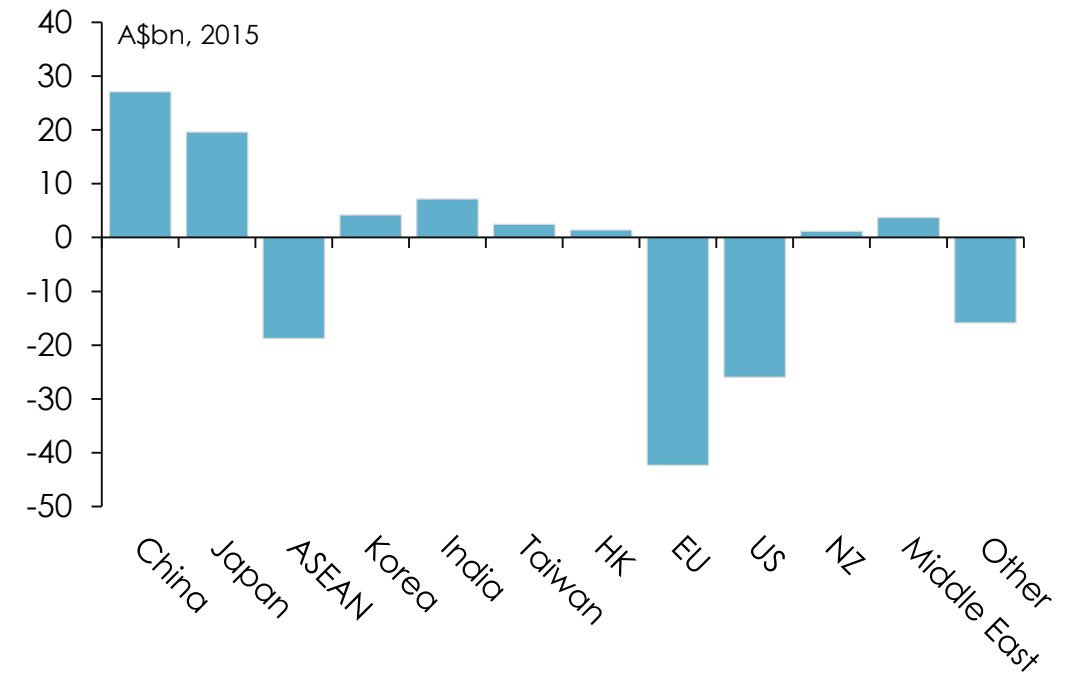
Exports by destination, 2015



Imports by origin, 2015



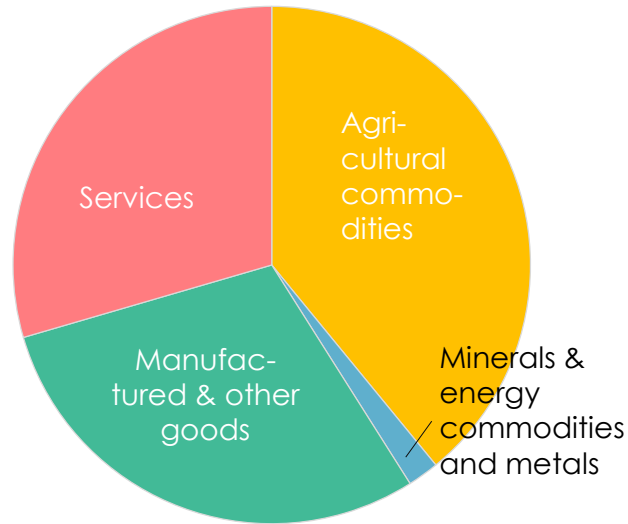
Australia's bilateral trade balances, goods and services, 2015



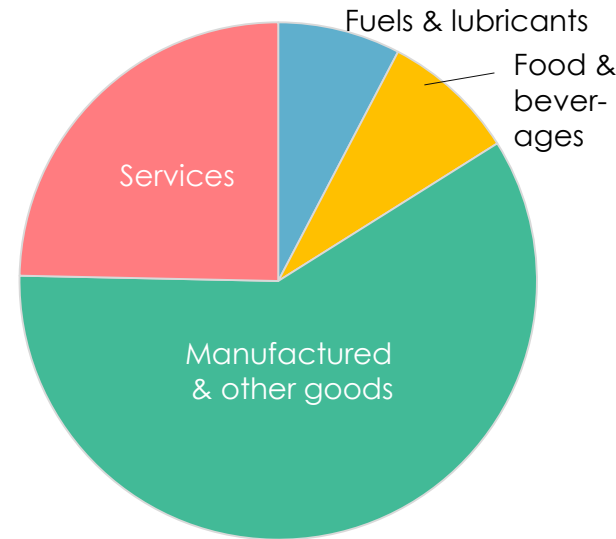
Source: Australian Department of Foreign Affairs & Trade.

New Zealand's trade

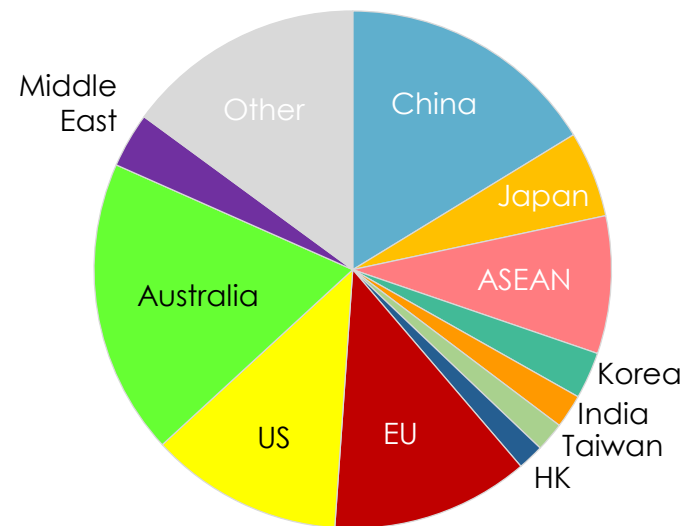
Exports by type, 2015



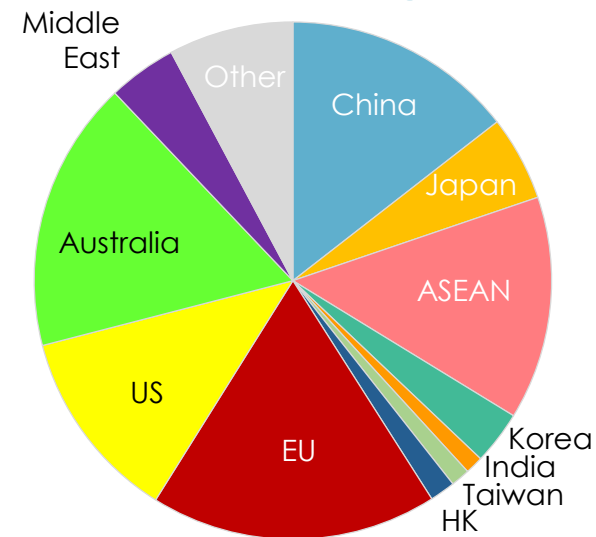
Imports by type, 2015



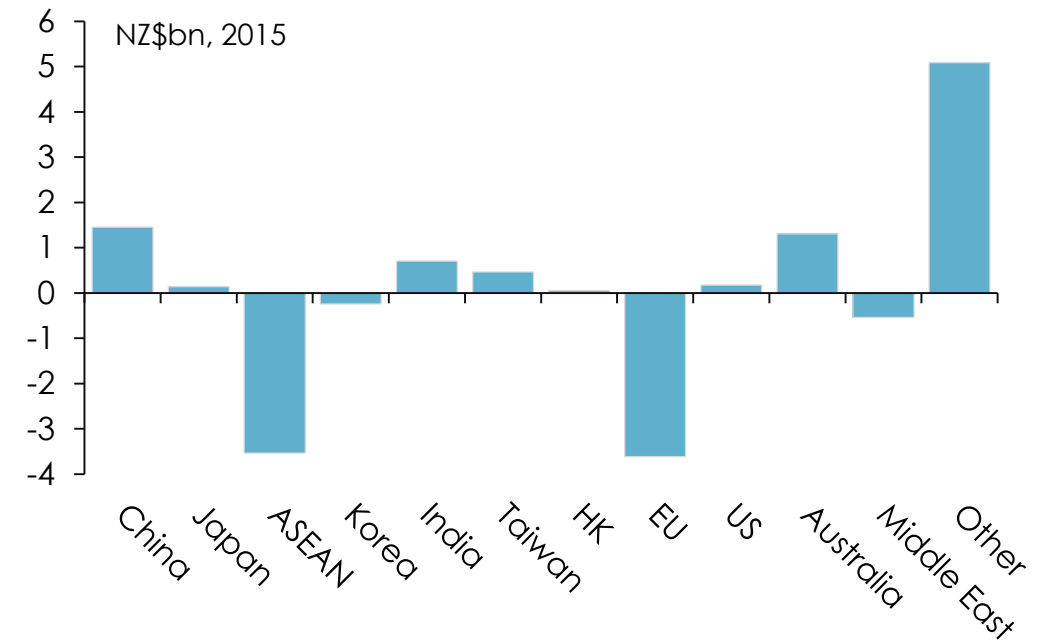
Exports by destination, 2015



Imports by origin, 2015



New Zealand's bilateral trade balances, goods and services, 2015



Sources: New Zealand Ministry for Foreign Affairs & Trade; Statistics New Zealand.

Australia's and New Zealand's top ten exports and imports

Australia

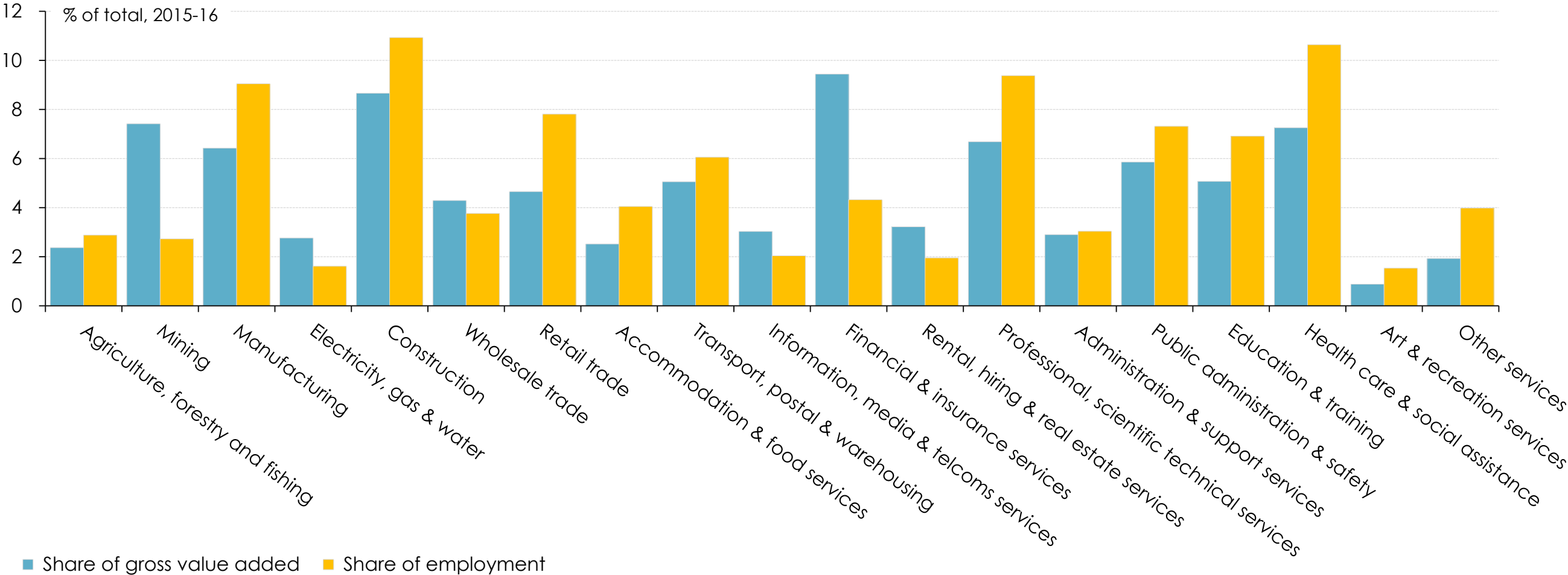
Exports	A\$m	Imports	A\$m
Iron ore	49,100	Petroleum	27,818
Coal	37,034	Tourism	27,046
Education	19,198	Motor vehicles	20,365
LNG	16,446	Telecoms equipment	11,675
Tourism	15,304	Freight services	10,248
Gold	14,504	Computers	8,471
Meat	13,034	Pharmaceuticals	7,287
Bauxite & alumina	7,493	Goods vehicles	6,734
Crude petroleum	6,005	Transport services	6,497
Wheat	5,812	Professional services	5,867

New Zealand

Exports	NZ\$m	Imports	NZ\$m
Dairy produce	11,520	Travel	5,326
Tourism	8,430	Electrical items	4,251
Meat	6,824	Petroleum	4,046
Forest products	4,712	Motor vehicles	4,027
Education	3,328	Transport services	3,980
Fruit & nuts	2,301	Aircraft and parts	1,936
Seafood	1,448	Clothing	1,856
Aluminium	1,033	Medical equipment	1,568
Coal	887	Goods vehicles	1,473
Wool	813	Pharmaceuticals	1,213

Industry structure of the Australian economy

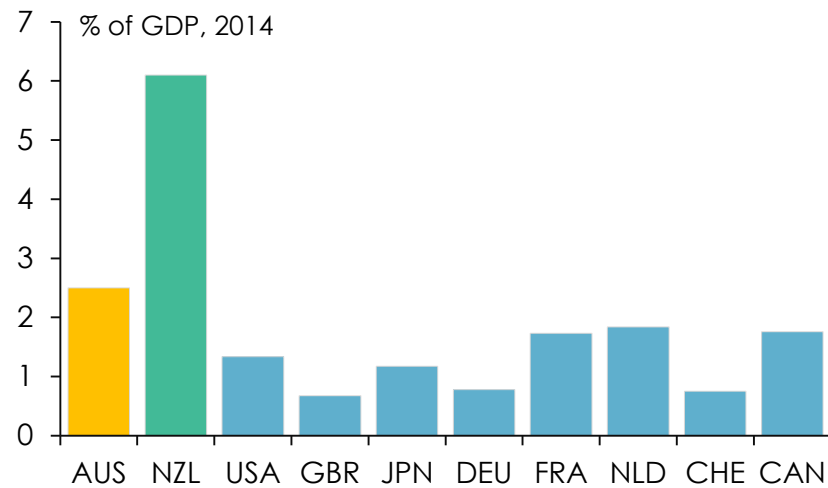
Industry shares of gross value added and of employment, 2015-16 financial year



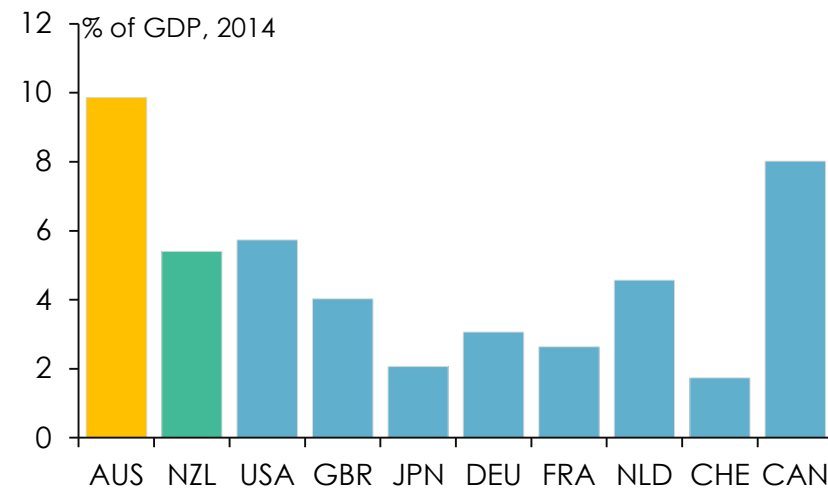
Note: Gross value added in 'ownership of dwellings' not shown (but is included in the total).
 Source: Australian Bureau of Statistics.

Key differences in industry structure of economic activity

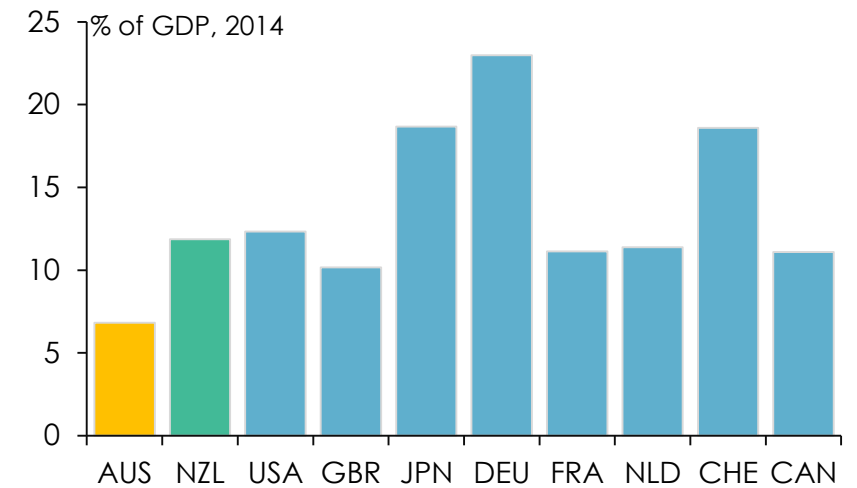
Agriculture, forestry & fishing



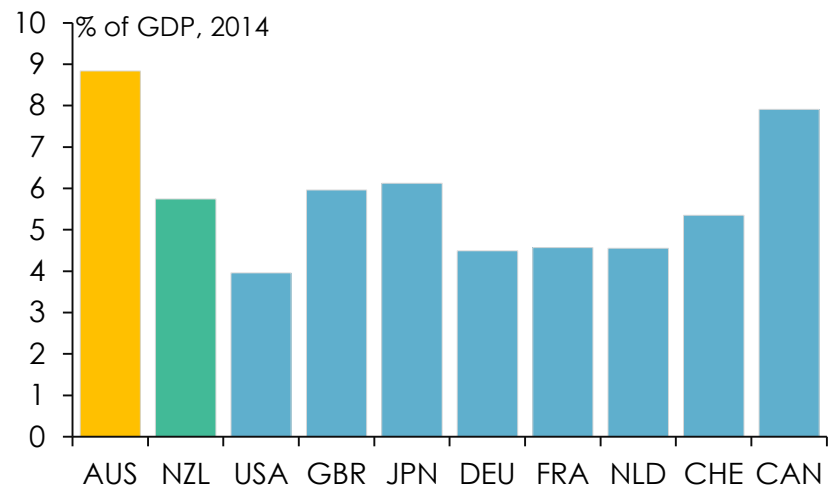
Mining and energy



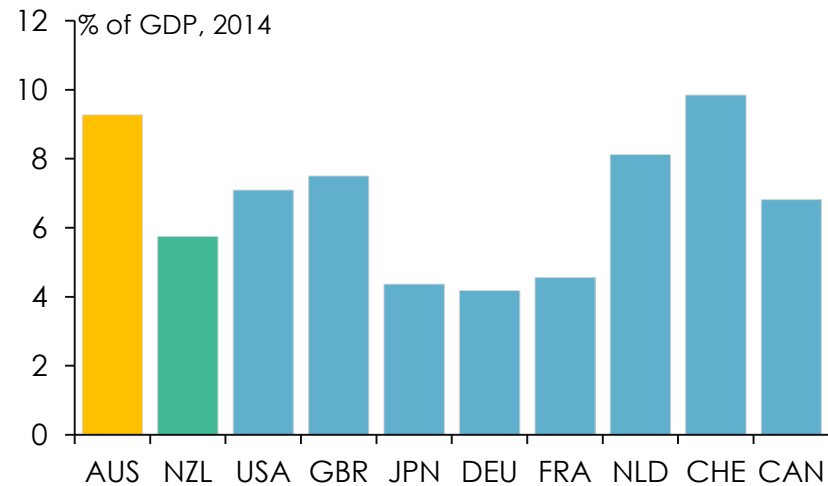
Manufacturing



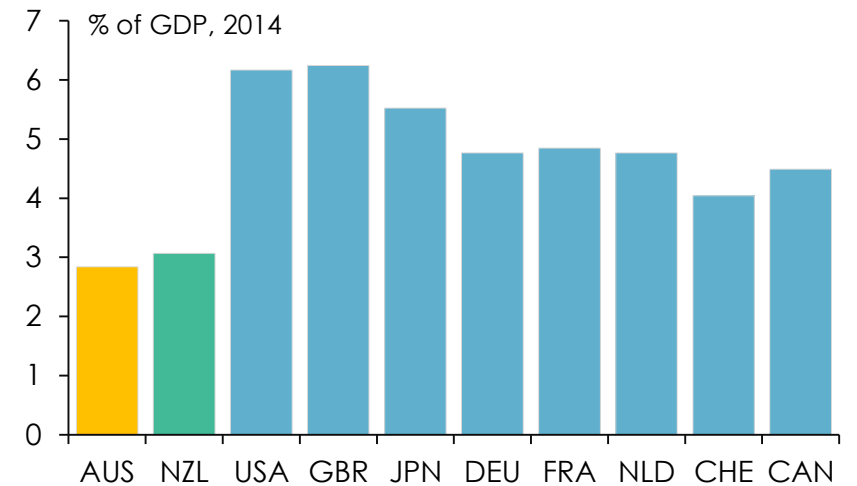
Construction



Financial services



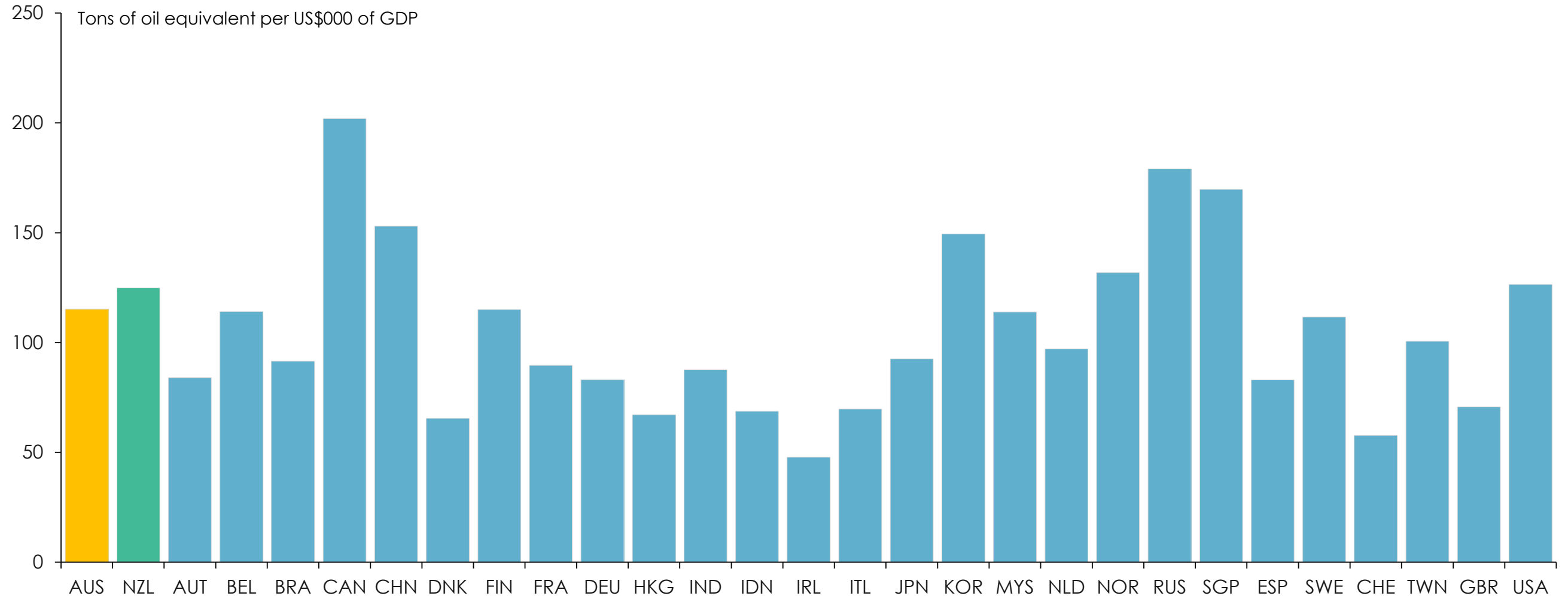
Information & communications



Note: Figures for New Zealand and Canada are for 2012. Mining and energy is derived as 'Industry' minus manufacturing.
Source: OECD, Value added by activity (indicator).

Australia and New Zealand are not especially energy intensive

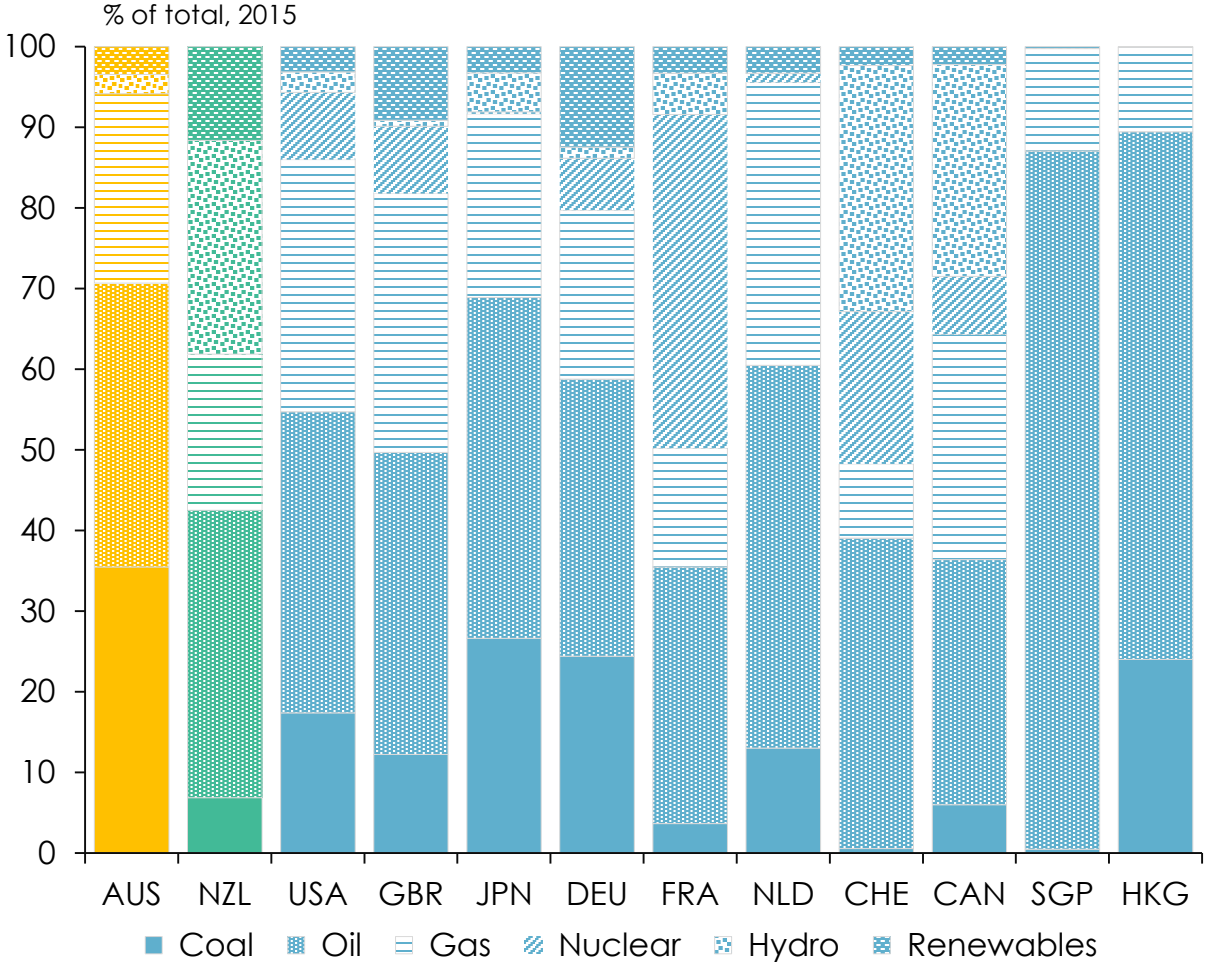
Primary energy consumption per \$US000 of GDP, 2015



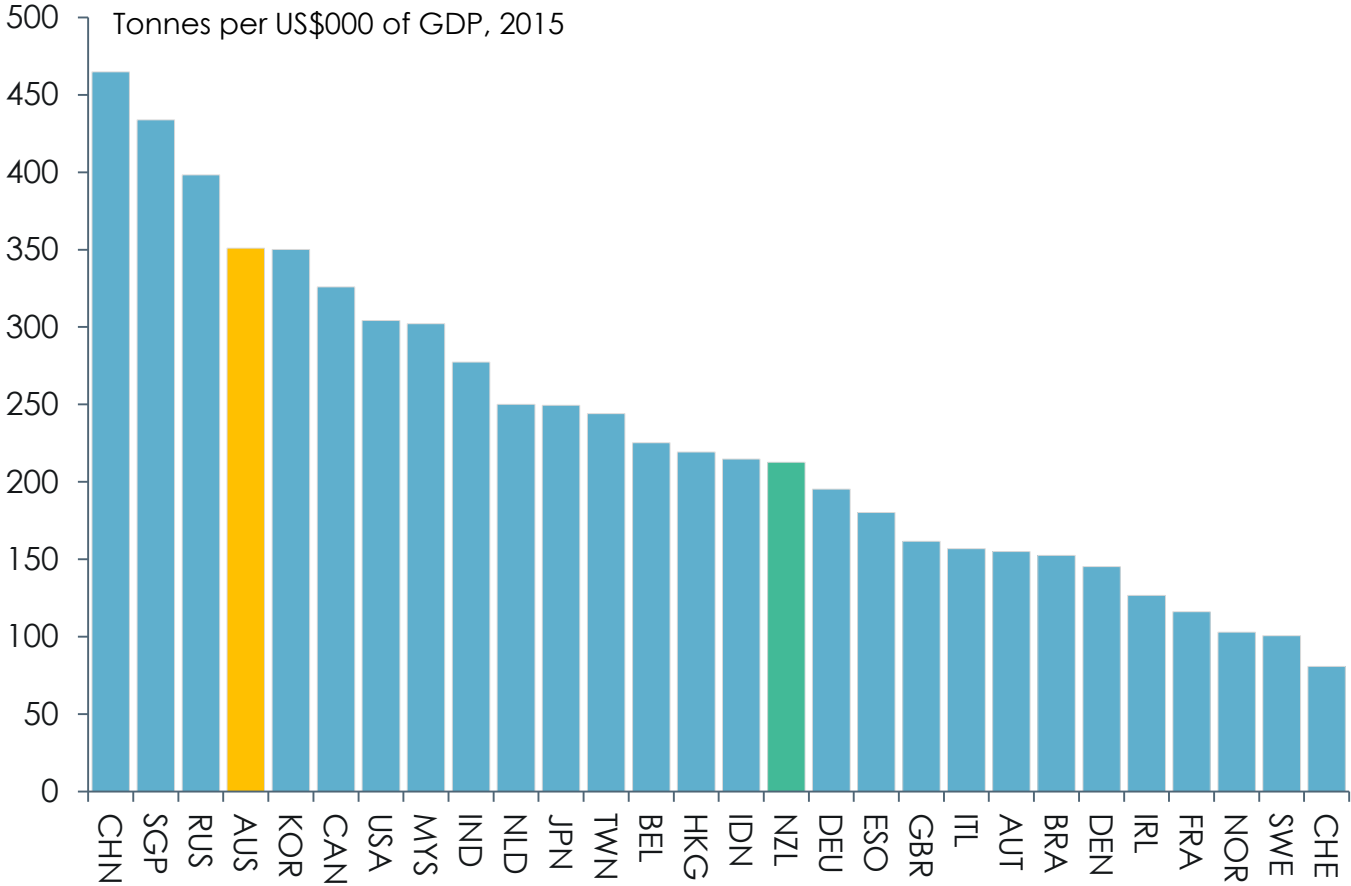
Sources: IMF, World Economic Outlook database, October 2016; BP, Statistical Review of World Energy 2016, June 2016.

However Australia's relatively heavy reliance on fossil fuels makes it one of the more CO₂ emissions-intensive economies in the world

Primary energy consumption by fuel source, 2015



CO₂ emissions intensity of economic activity, 2005



Sources: BP, Statistical Review of World Energy 2016, June 2016; IMF, World Economic Outlook database, October 2016.

Some important features of Australia's system of government

- ❑ **Australia has a federal system of government, with the national ('federal' or 'Commonwealth') government based in Canberra, 6 State and 2 Territory governments and 547 local governments**
- ❑ **The federal and State/Territory Governments operate as Westminster-style parliamentary systems**
 - the Head of State (the British monarch) is represented by a Governor-General (nationally) and Governors (in the States) who serve purely ceremonial roles (as the Queen does in the UK)
 - executive power is exercised by a Ministry (or Cabinet) selected from among members of the party or parties which command a majority in the Lower House of the Parliament, led by the Prime Minister (nationally), Premiers (in each of the States) and Chief Ministers (in the Territories)
- ❑ **Enrolling to vote after turning 18, and voting once enrolled, are compulsory in Australia**
 - and voting systems for Australian parliaments are complex compared with those used in the US and the UK
- ❑ **Australian Governments usually don't have majorities in the Upper Houses of their parliaments**
 - In the Senate (in the national parliament) and Legislative Councils (in four of the six States), minor parties and/or independents frequently determine the fate of legislation not supported by the principal opposition party
- ❑ **National elections are held at intervals of no more than (sometimes less than) three years**
 - subject to constitutional requirements the timing of national elections is entirely at the discretion of the Prime Minister
 - State elections are held on fixed dates at 4-yearly intervals, except in Queensland where the normal term is 3 years
- ❑ **The Australian Constitution, as interpreted since 1901 by the High Court, has resulted in the national government much greater powers to raise revenues than the States**
 - as a result of which Australia has an unusually complex set of financial arrangements between the national and State/Territory Governments, and 'buck-passing' between these two levels of government is commonplace

Current political situation in Australia

❑ Australia enjoyed an extended period of political stability between 1983 and 2007

- Labor (centre-left) Governments of Prime Ministers Bob Hawke (1983-91) and Paul Keating (1991-96) and Liberal-National coalition (centre-right) Government of John Howard (1996-2007) presided over significant 'reform era'

❑ Since 2007 the national political scene has become much less stable

- Australia has had three changes of government and five changes of Prime Minister during this period
- since September 2013 Australia has been governed by the (centre-right) Liberal-National Party coalition, led initially by Tony Abbott and (since September 2015) by Malcolm Turnbull

❑ The present national Government has a precarious position in Parliament

- Malcolm Turnbull's Government was returned to office at elections held on 2 July 2016 with a majority of just one seat in the 150-member House of Representatives (having lost 14 seats to the Opposition Labor Party)
- the Liberal and National Parties have only 30 (out of 76) Senators, the Opposition Labor Party has 26, and the (left wing) Greens have 9: so to pass any legislation opposed by Labor and the Greens, the Government needs the support of at least 8 of the 11 (mostly right-wing) minor party or independent Senators

❑ In the ordinary course of events the next national elections are likely to be held in the first half of 2019

- although a House of Representatives election doesn't have to be held until early November 2019, an election for half the Senate must be held before mid-May 2019 (unless the Government calls another 'double dissolution' election)

❑ Current state political situation and election timetable

- Labor currently governs three States (Victoria, Queensland and South Australia) and both Territories, Liberal-National Party coalitions govern New South Wales and Western Australia, and the Liberal Party governs Tasmania
- State elections are next due in WA (11 March 2017), Queensland (any time up until late January 2018), SA and Tasmania (17 March 2018), Victoria (24 November 2018) and NSW (23 March 2019)

Some important features of New Zealand's system of government

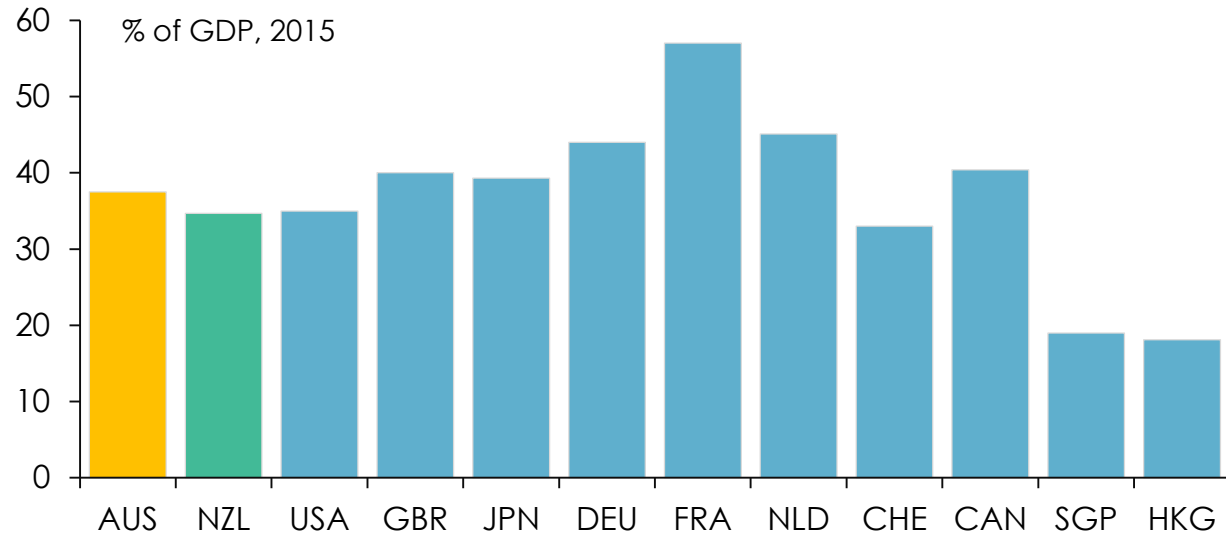
- ❑ **New Zealand has a unitary system of government, with the national (or 'Dominion') government based in Wellington, and two tiers of local government**
 - the 'top tier' comprises 11 regional councils
 - the 'second tier' comprises 67 'territorial authorities' comprising the Auckland Council, 12 other city councils, 53 district councils and the Chatham Islands Council
 - the 11 regional councils, the Auckland and Chatham Islands Councils, and three other 'territorial authorities' administer the 16 'regions' into which New Zealand is divided for some purposes
- ❑ **As in Australia, New Zealand government operates under a 'Westminster' parliamentary system**
- ❑ **New Zealand has a unicameral national legislature – and (like the UK) no written constitution**
 - seven seats in the (usually) 120-member House of Representatives are reserved for representatives elected by Māori voters
 - elections are held at intervals of no more than three years, with the precise date being at the discretion of the Prime Minister
- ❑ **Unlike Australia, enrolment and voting are not compulsory in New Zealand**
- ❑ **Since 1996 New Zealand has used a 'multi-member proportional' system of voting (similar to that used in Germany) for House of Representatives elections**
 - voters cast two votes, one for a local constituency representative and another for a party or list of candidates
 - the party vote is used to ensure that the number of MPs representing each party gaining more than 5% of the national vote or winning at least one constituency vote is proportional to its share of the national party vote
 - this has led to a proliferation of minor parties gaining representation in the NZ Parliament and required the formation of cross-party coalitions in order to form stable governments

Current political situation in New Zealand

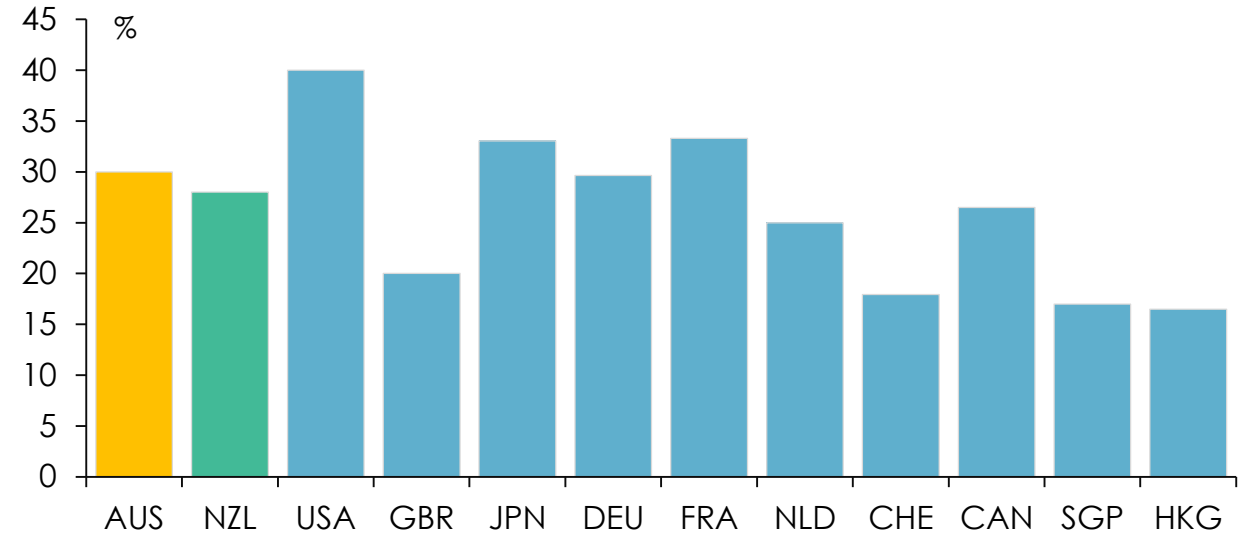
- ❑ **New Zealand has had an extended period of relative political stability since 1999 – despite an electoral system which makes it almost impossible for a single party to gain a parliamentary majority**
 - New Zealand was governed by a Labour-led centre-left coalition under Prime Minister Helen Clark from 1999 to 2008
 - the (centre-right) National Party led by John Key has been in government since November 2008, in coalition with the single-member United Front and Association of Consumers & Taxpayers parties and the (now) 2-member Māori Party
- ❑ **The Government of Prime Minister John Key has increased its majority by one seat at each of the past two elections**
 - the National-led coalition government currently has 64 seats (60 held by National Party MPs) in the 121-member House of Representatives
 - the Opposition Labour Party has 27 MPs, the (left-wing) Green Party has 14, and the (right-wing, populist) NZ First Party has 11 MPs
- ❑ **The next national elections must be held no later than 18th November 2017**
 - The precise timing of the election is at the discretion of the Prime Minister, although 'early elections' are rare in New Zealand

Key aspects of Australia's and New Zealand's public sectors

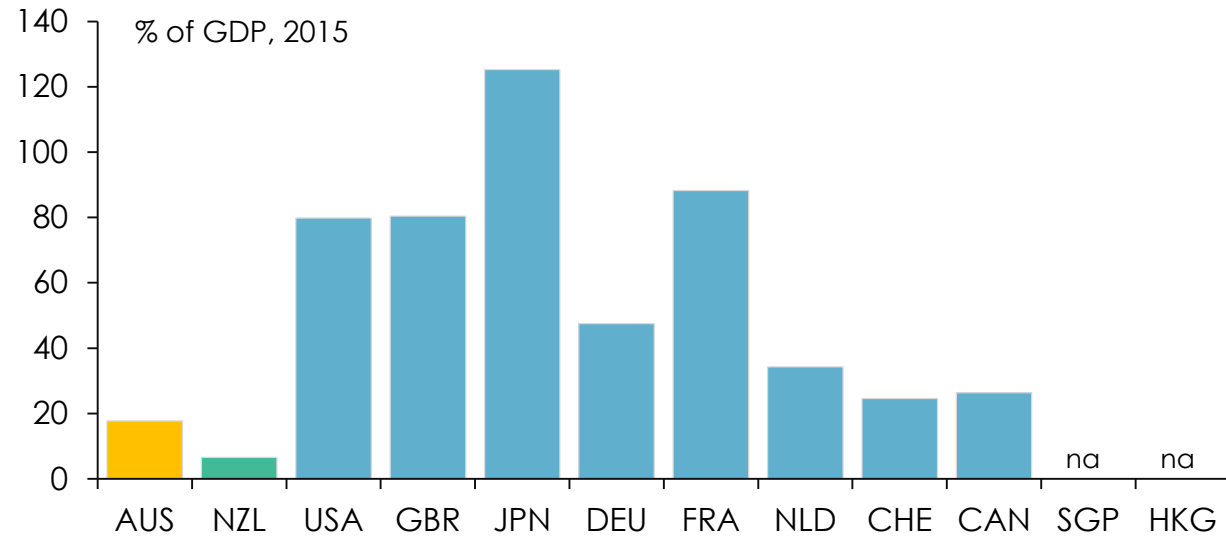
Government spending



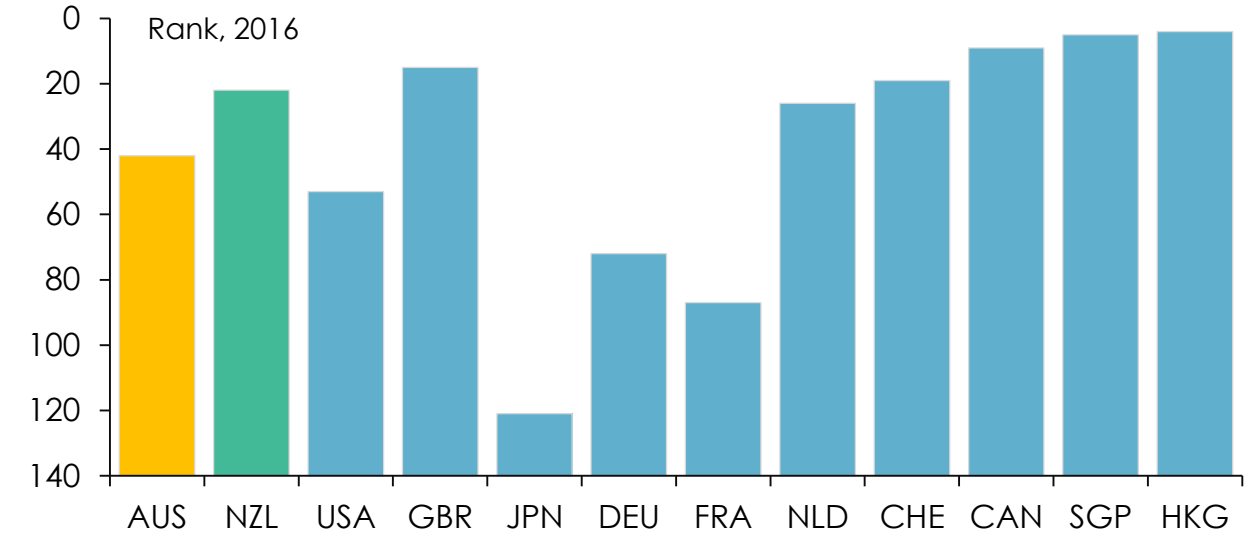
Maximum corporate tax rate



Government net debt

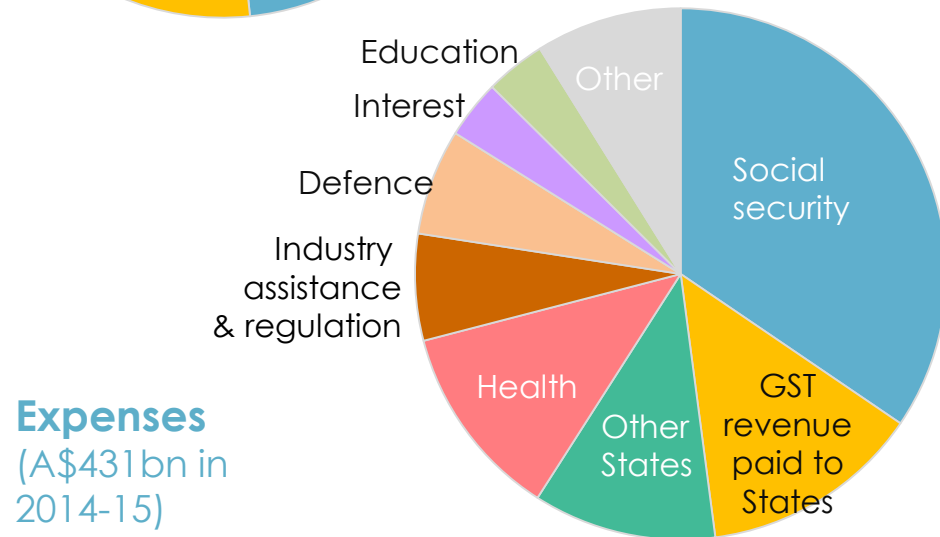
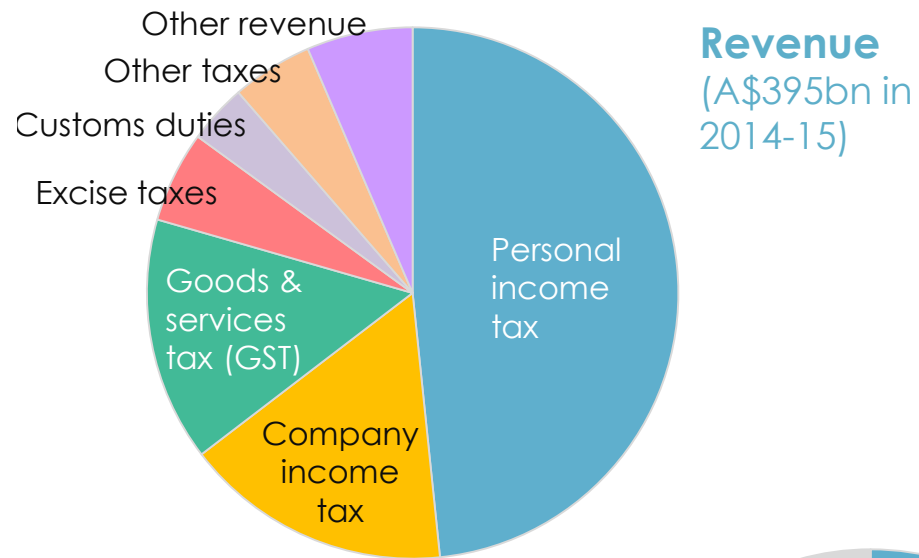


'Ease of paying taxes'

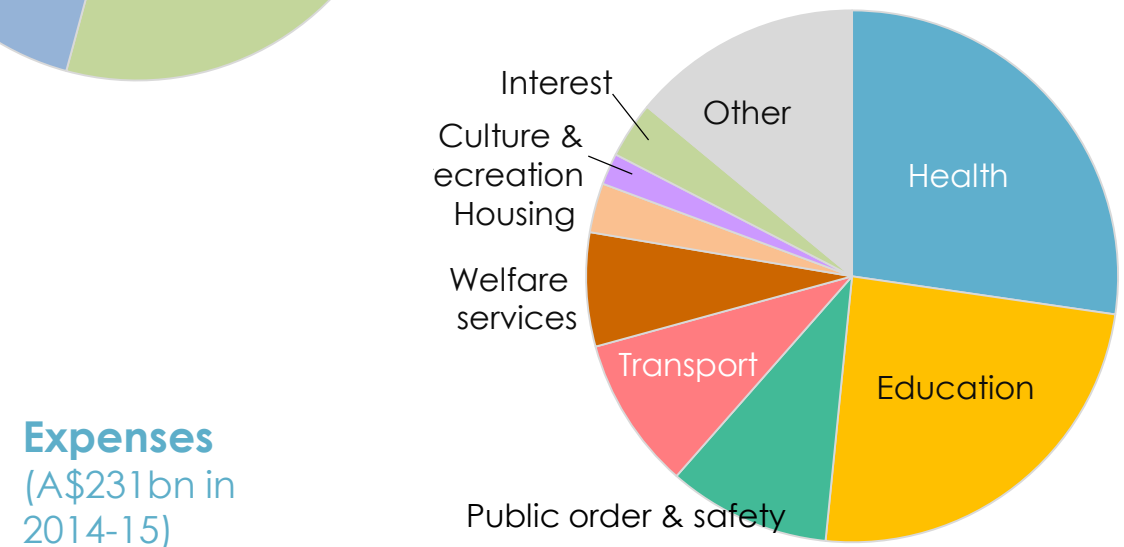
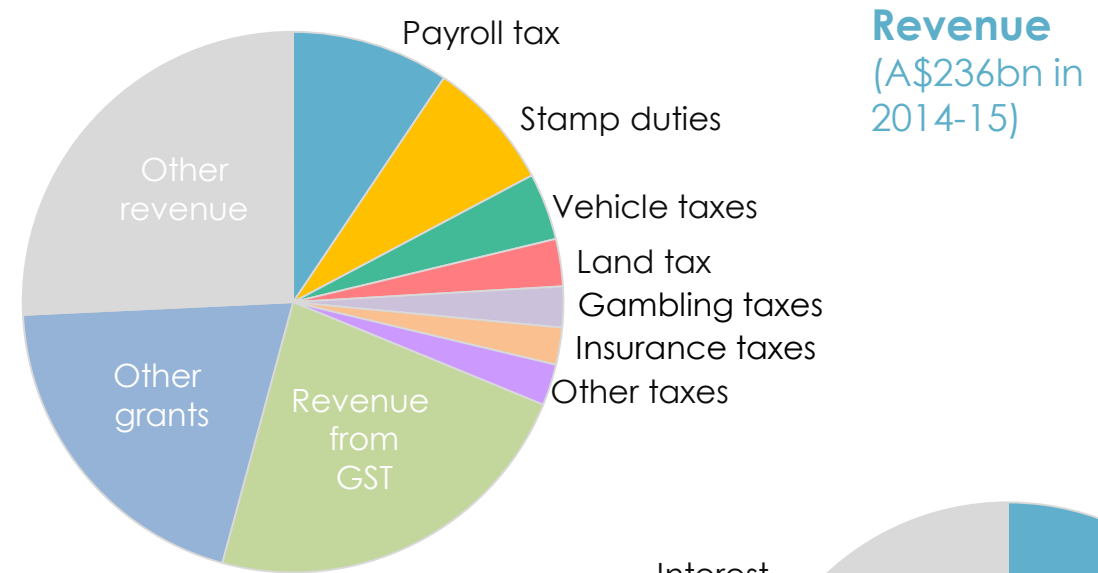


How Australia's governments raise and spend their money

National government

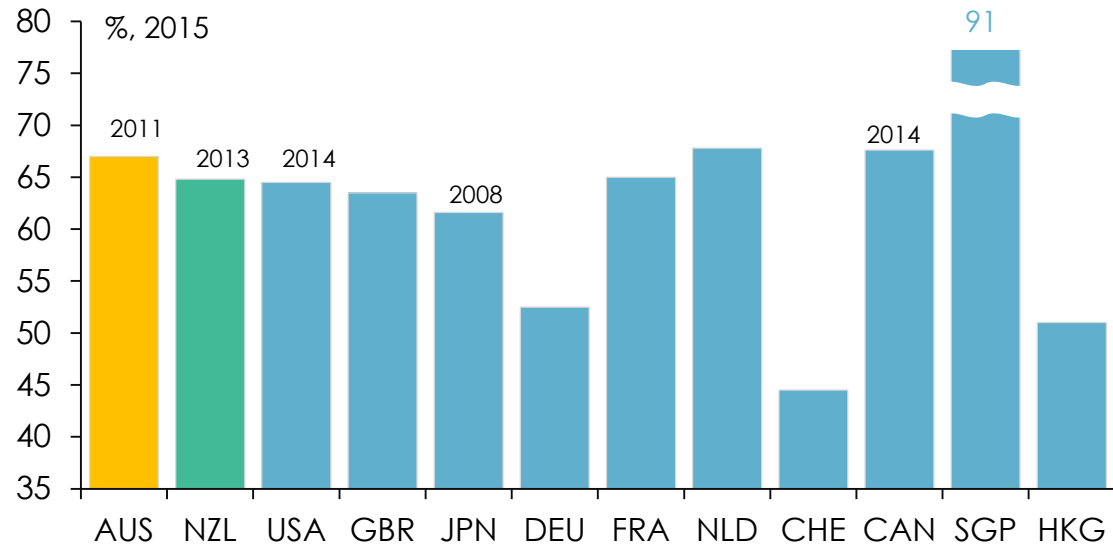


State and Territory governments

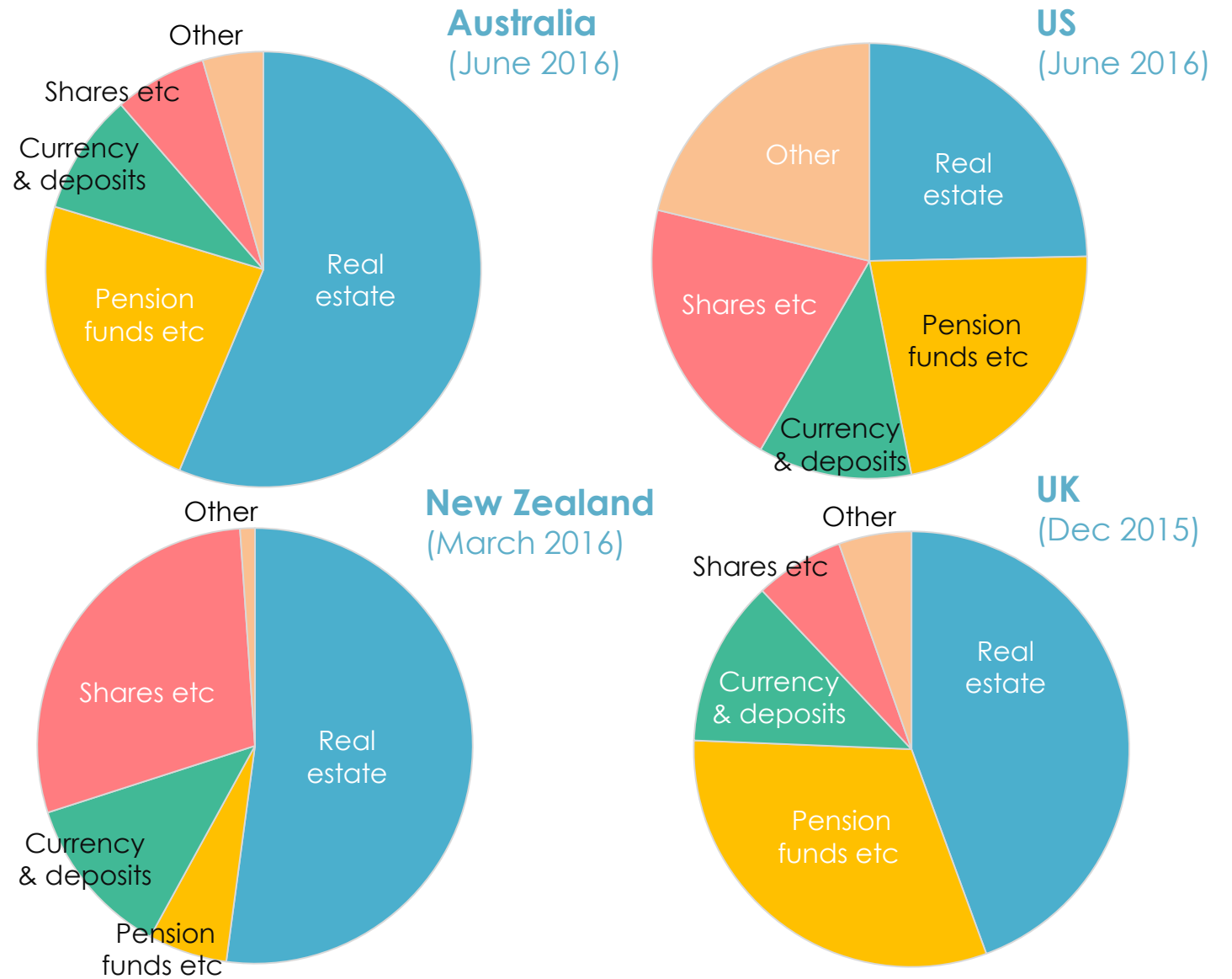


Some aspects of Australian and New Zealand household finances

Home ownership rate

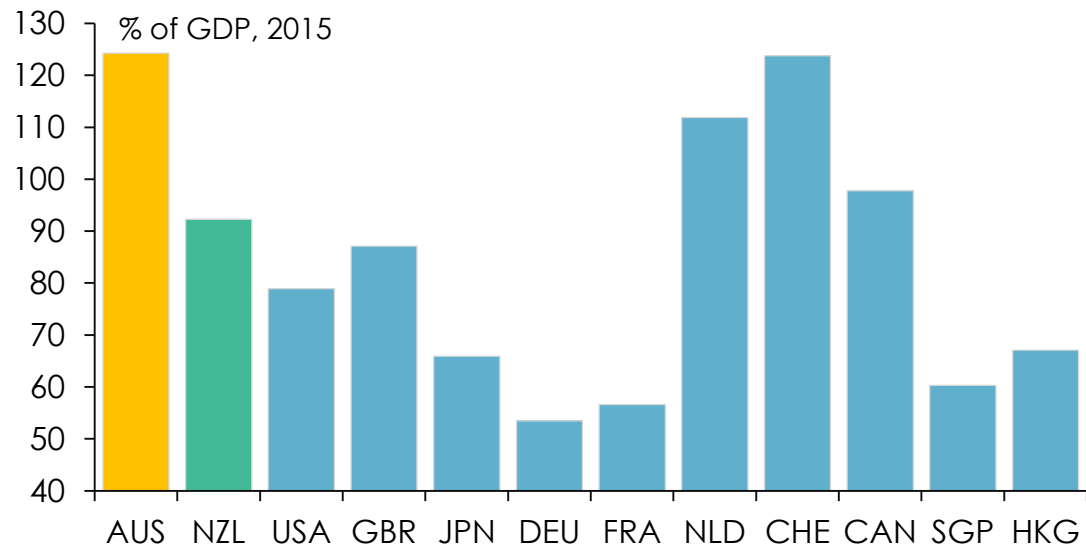


Household assets by type



'Pension funds etc' includes life insurance reserves. 'Shares etc' includes equity mutual funds. 'Other' includes bonds.

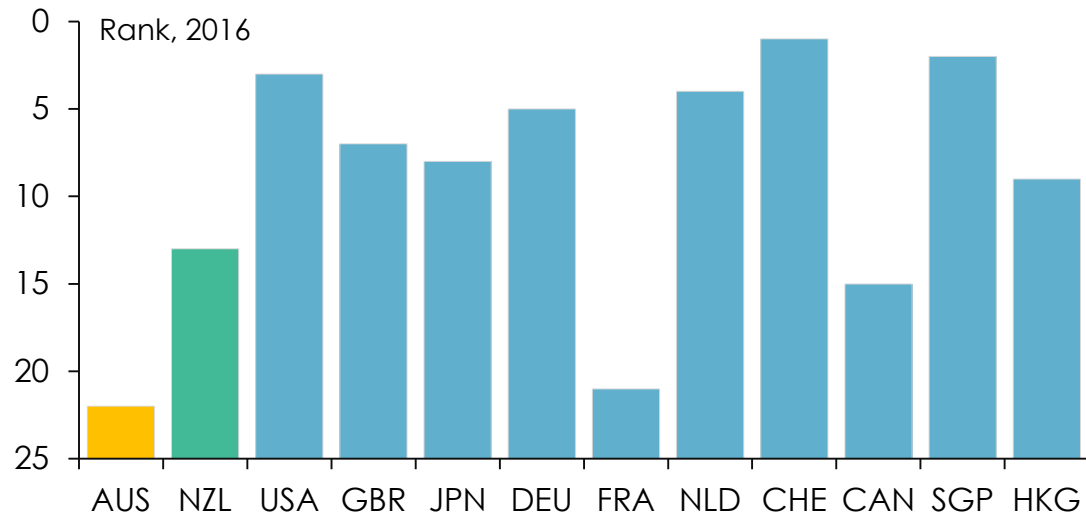
Household debt



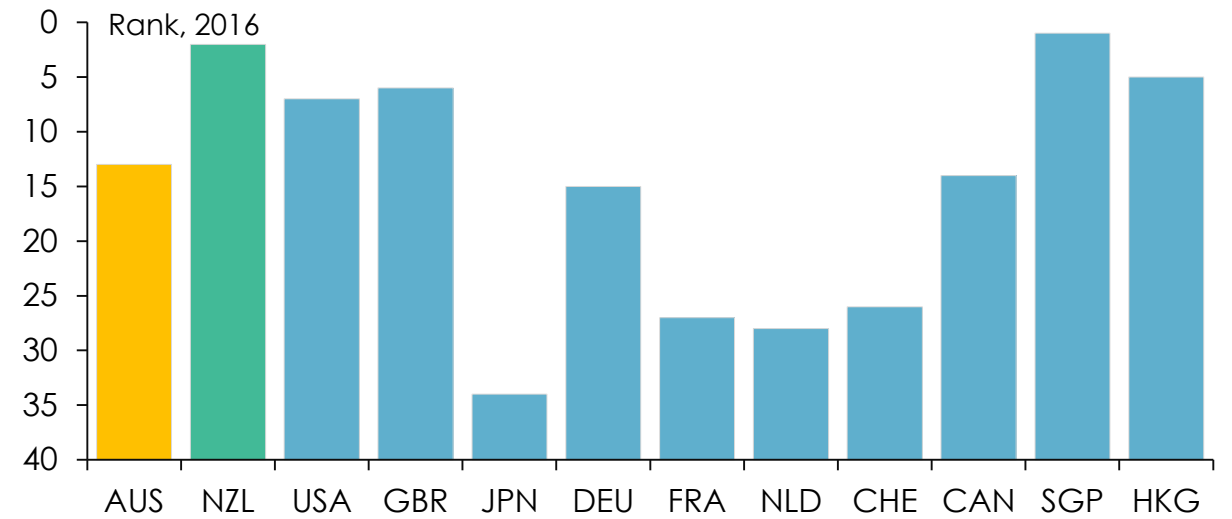
Sources: OECD; Bank for International Settlements; ABS; RBNZ; US Federal Reserve; UK ONS.

Competitiveness and other survey rankings

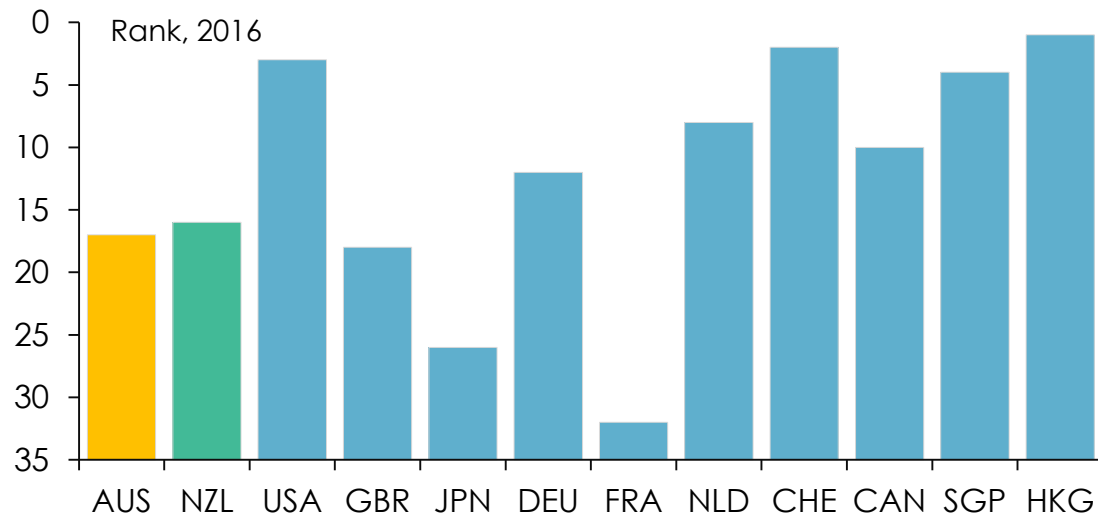
WEF Global Competitiveness Index



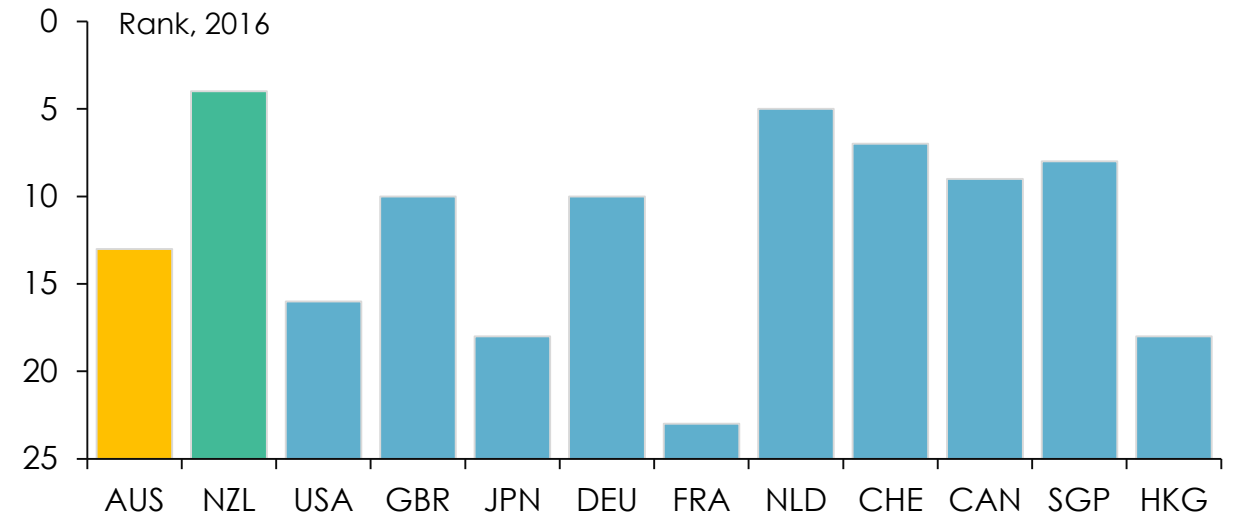
World Bank Ease of Doing Business



IMD World Competitiveness Yearbook

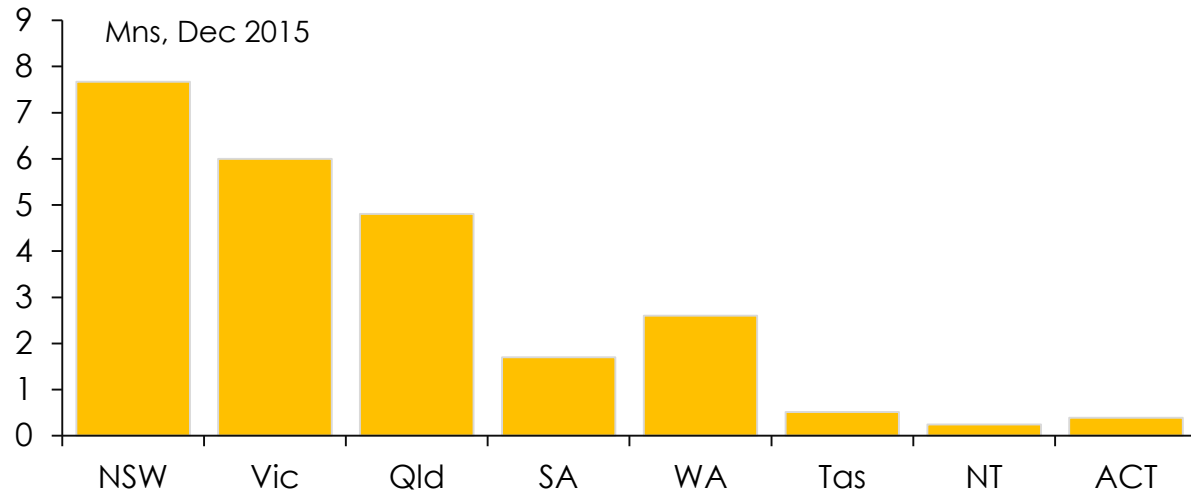


'Transparency Int'l Corruption Perceptions Index

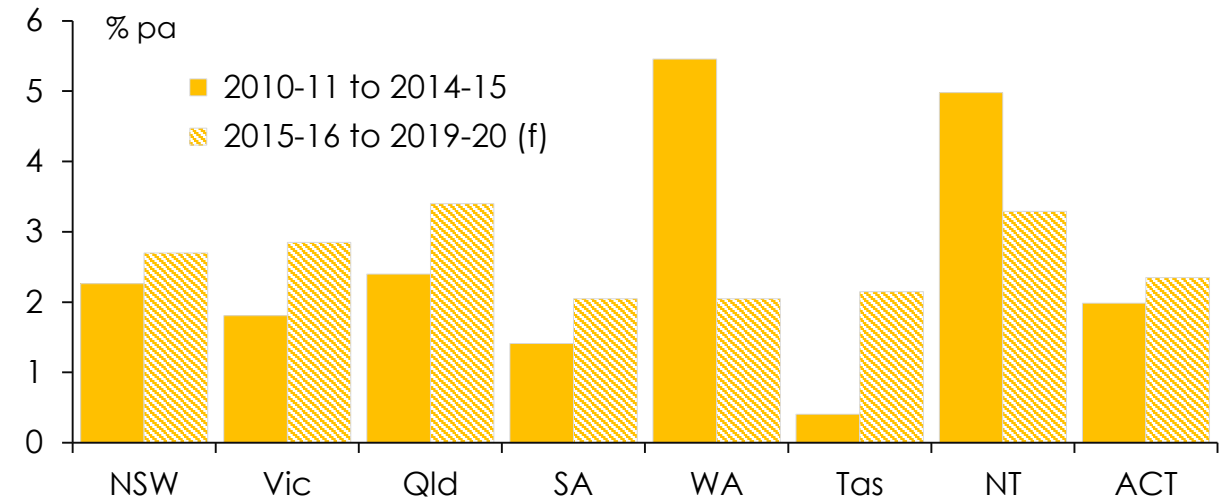


Perspective on Australia's States and Territories

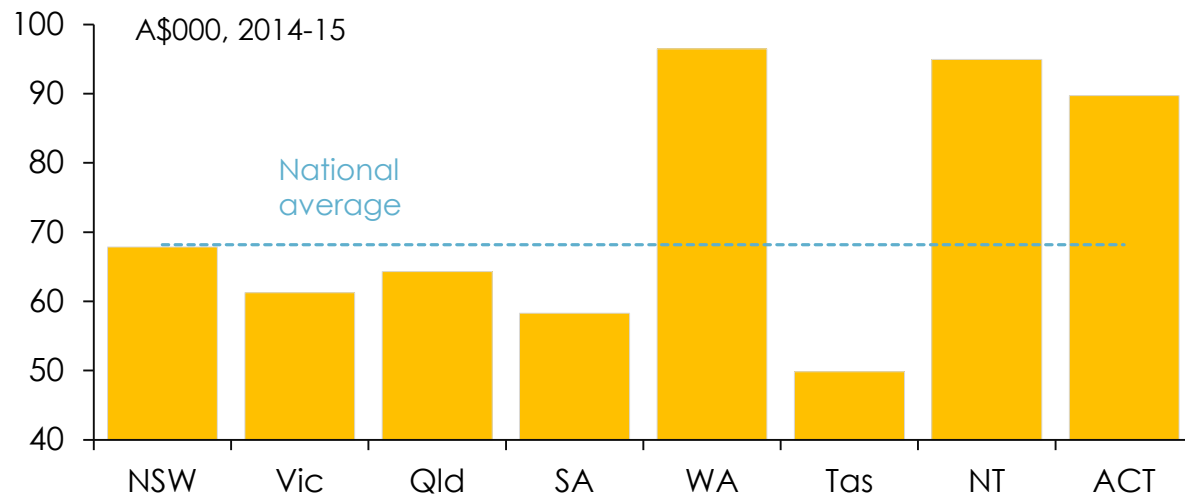
Population



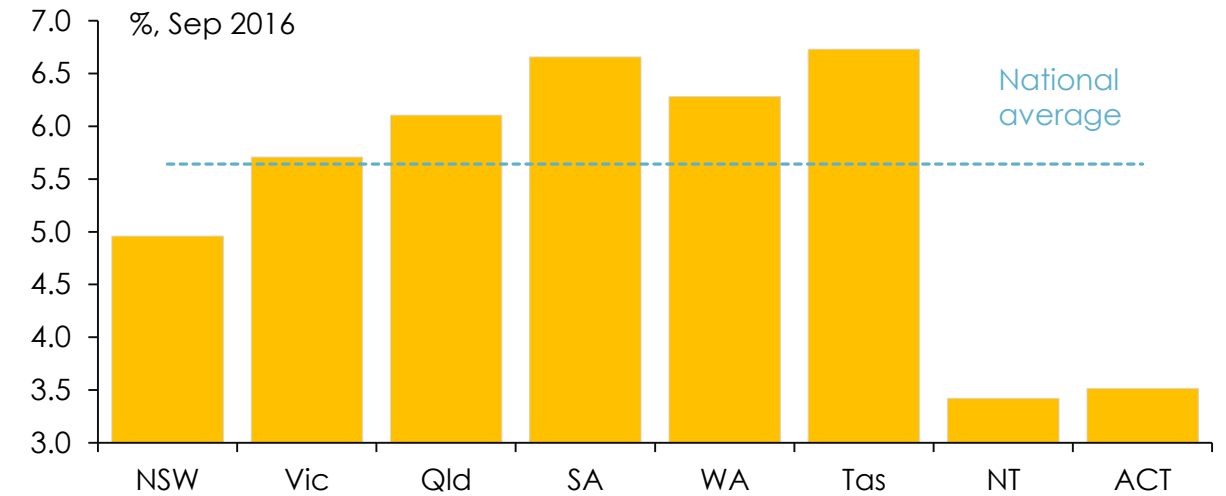
Growth in real gross product



Gross product per capita

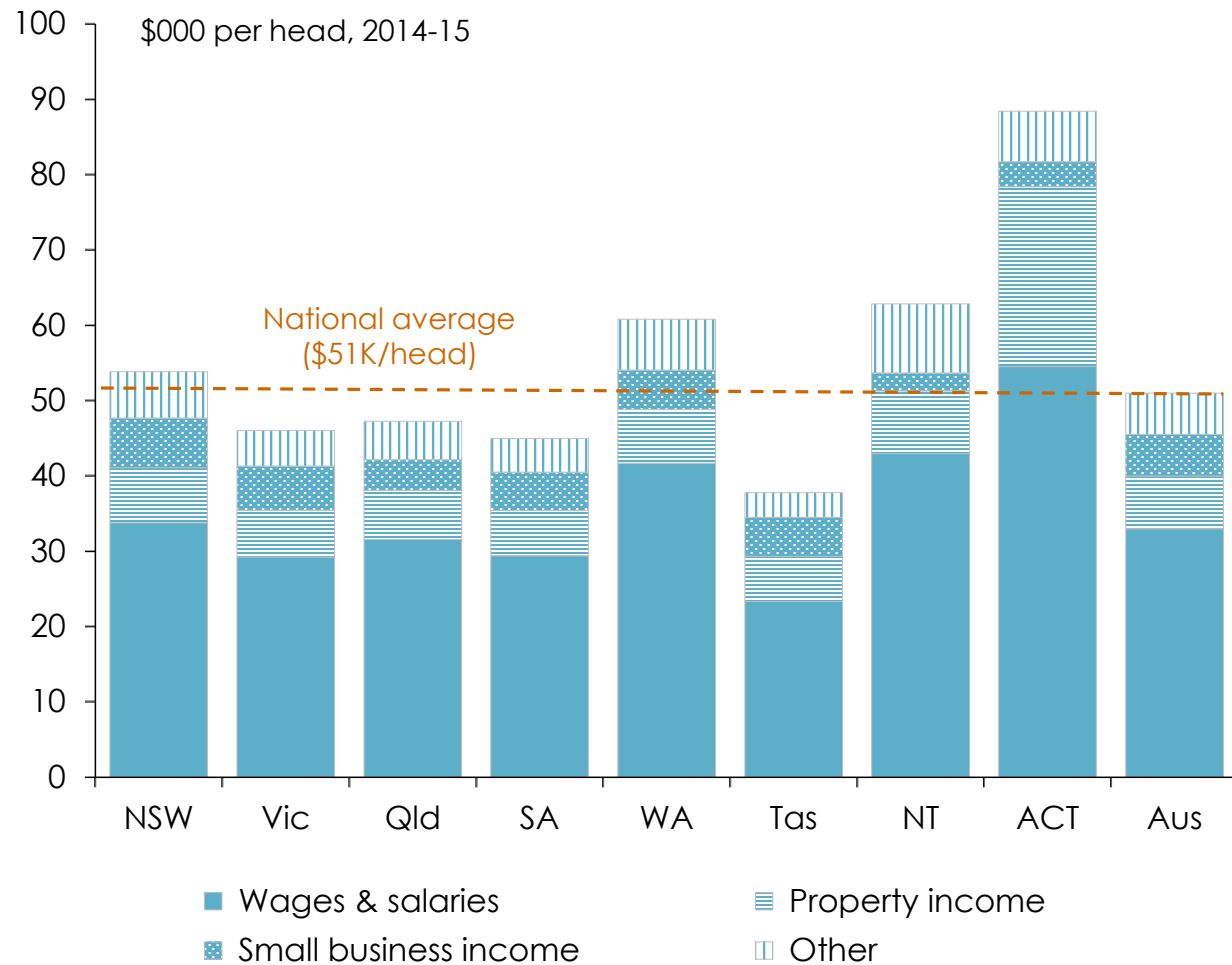


Unemployment rate

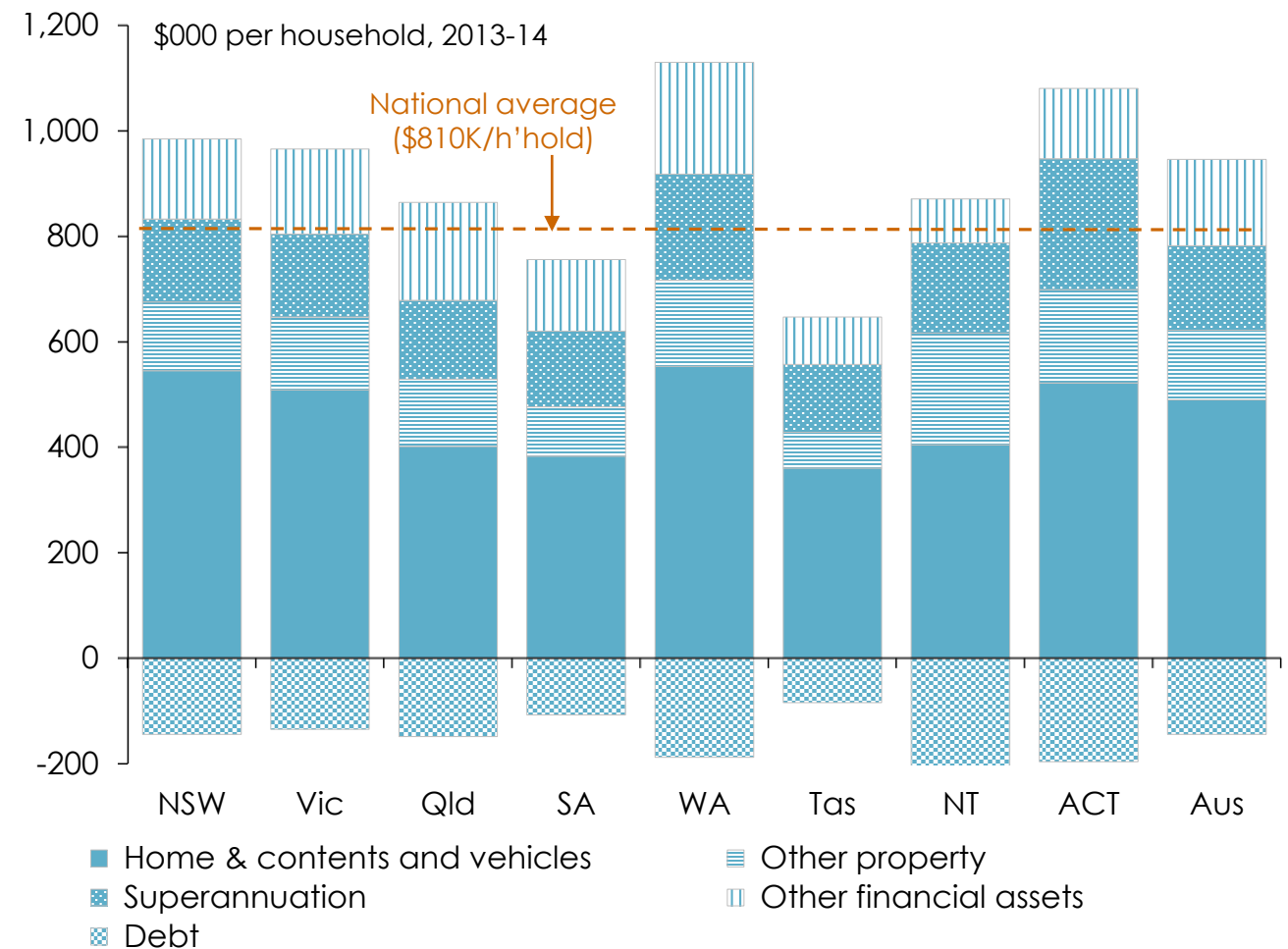


Average household income and wealth, by State

Average gross household income per capita, States and Territories, 2014-15



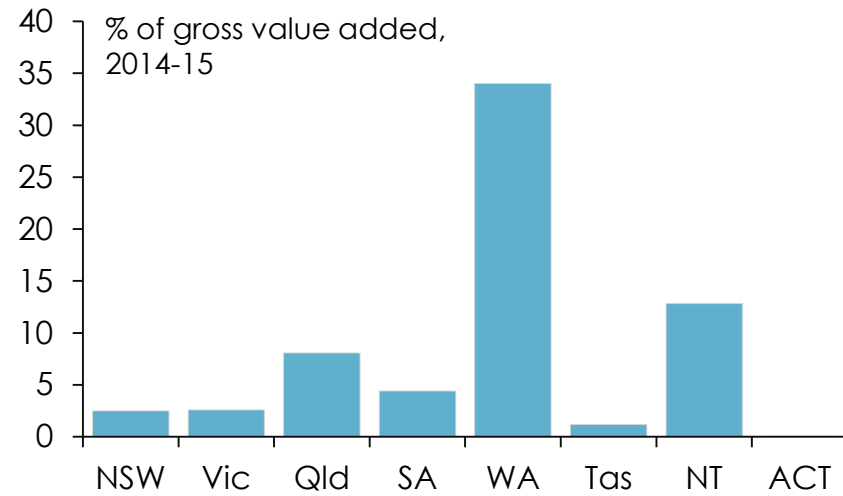
Average net worth per household, States and Territories, 2013-14



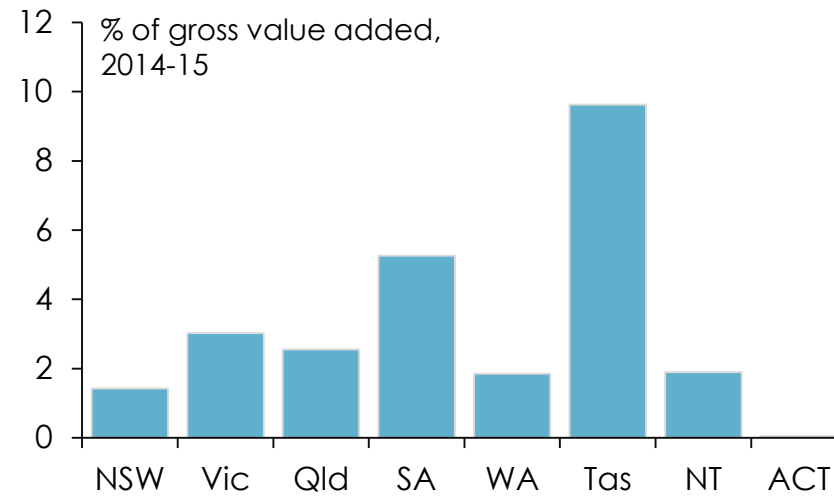
Source: Australian Bureau of Statistics.

Structure of State and Territory economies

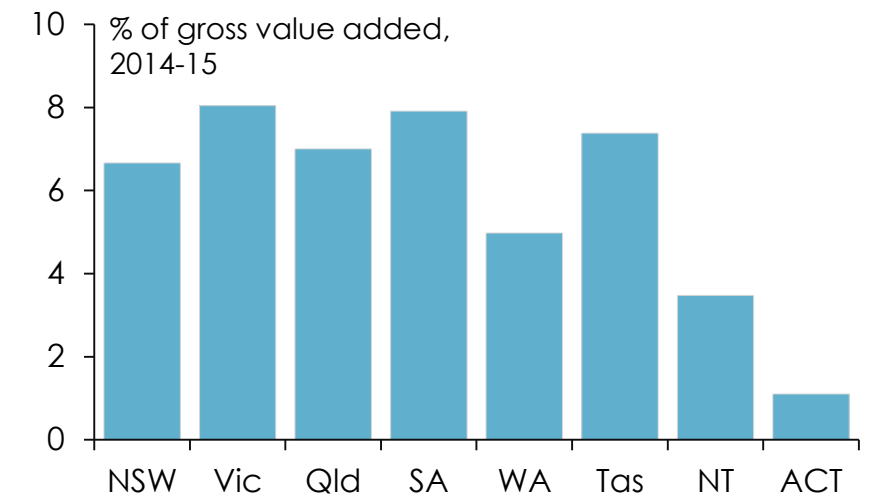
Mining



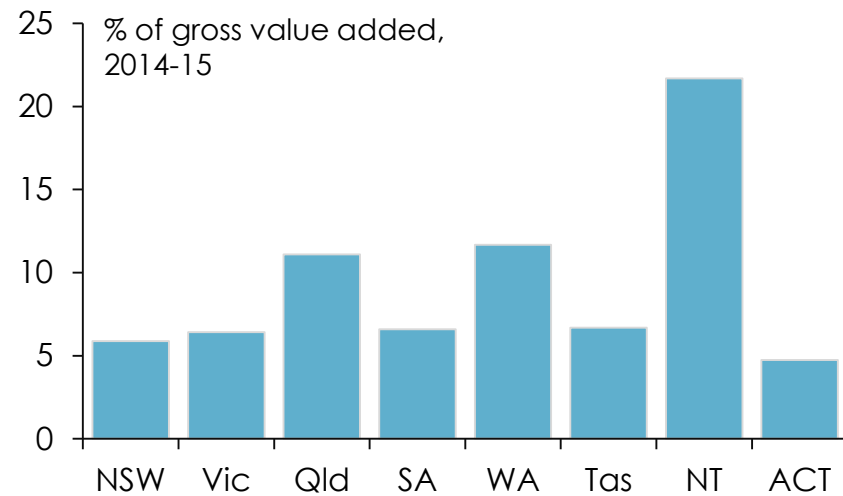
Agriculture, forestry & fishing



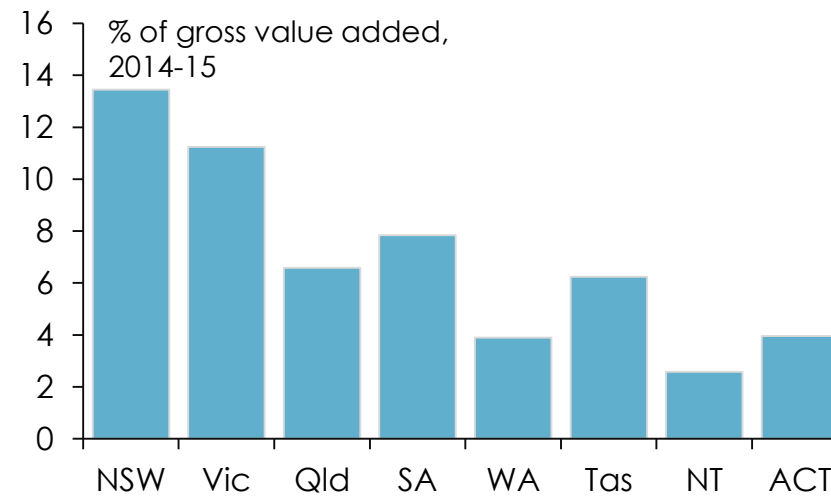
Manufacturing



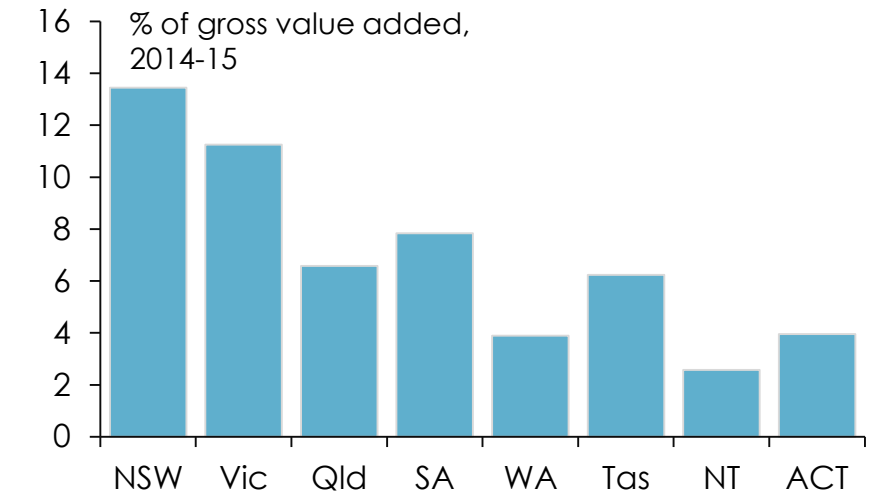
Construction



Finance & insurance



Prof's'nal, scientific & tech services

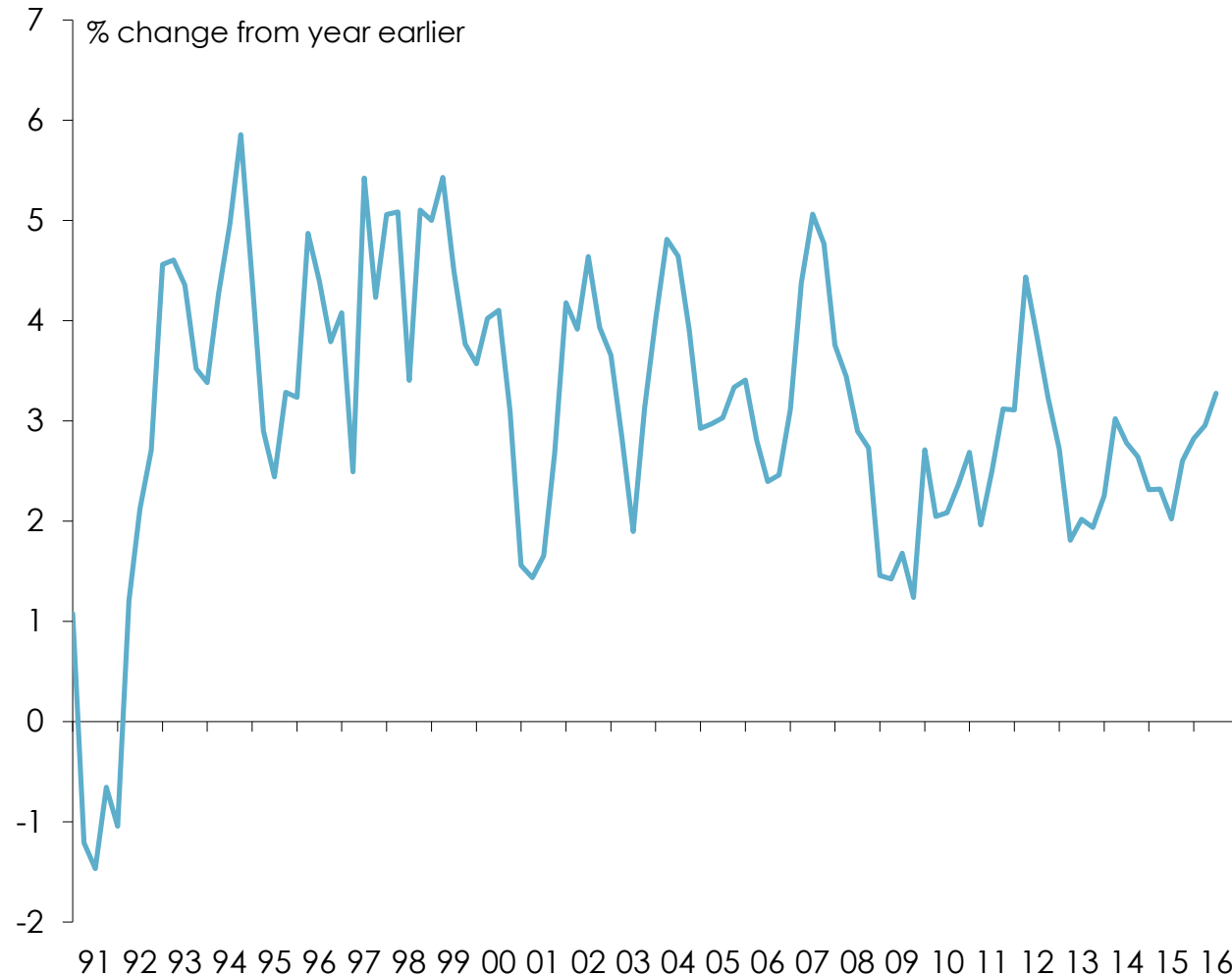


Note: Gross value added excludes value added in 'ownership of dwellings'. Source: ABS.

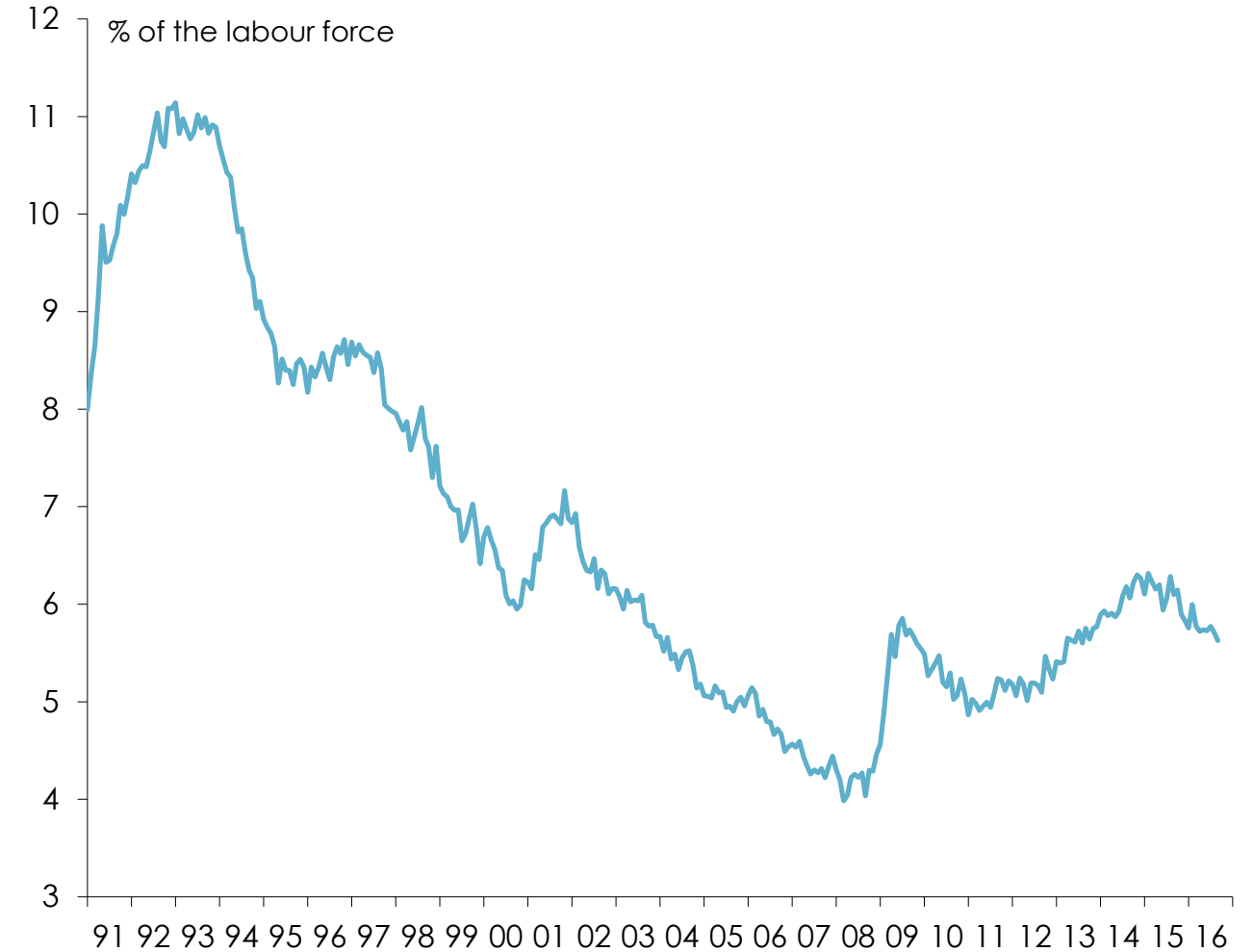
The Australian economy – recent past and present

Australia has now gone 25 years without recession (at least, not by the most widely-used definition of that term)

Economic growth



Unemployment

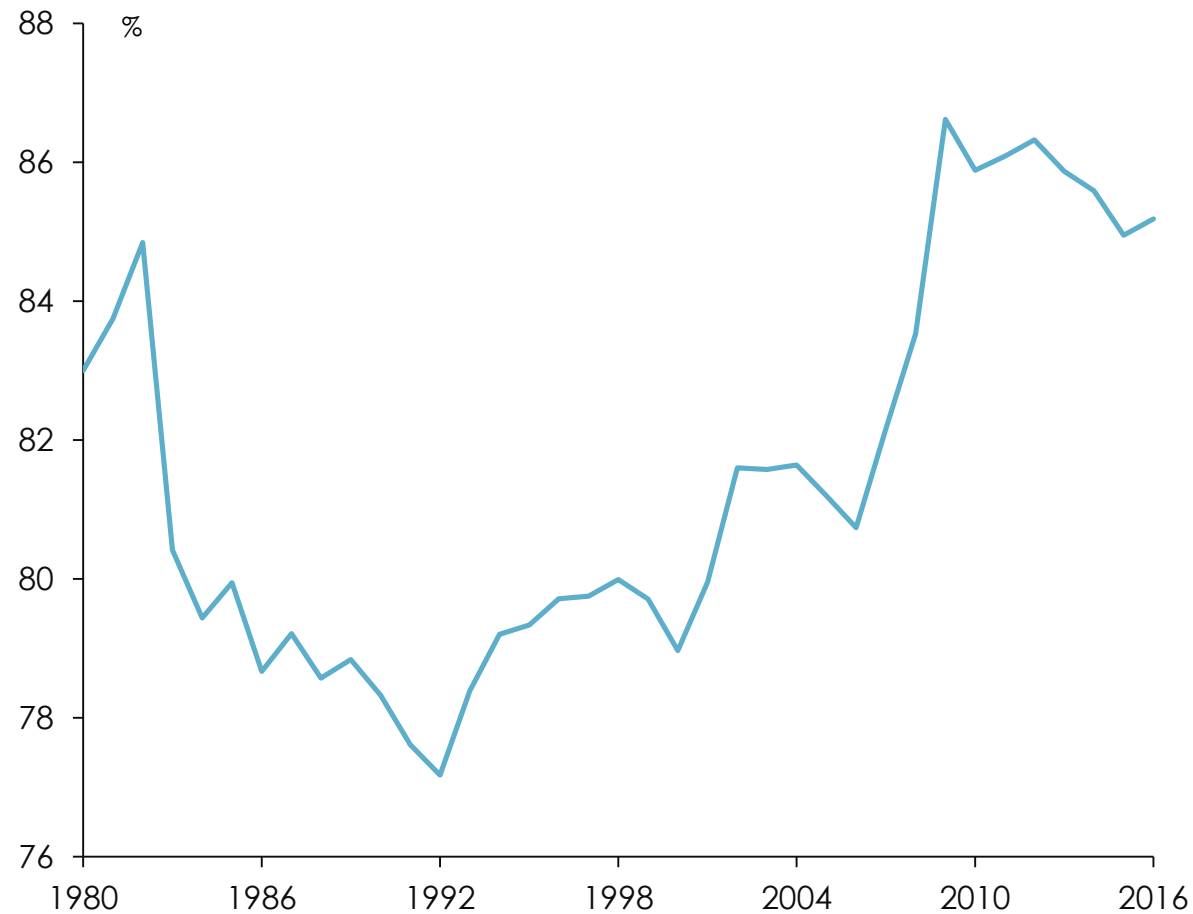


Note: Real GDI (gross domestic income) is real GDP plus net income gains (or losses) arising from changes in the terms of trade.

Source: ABS.

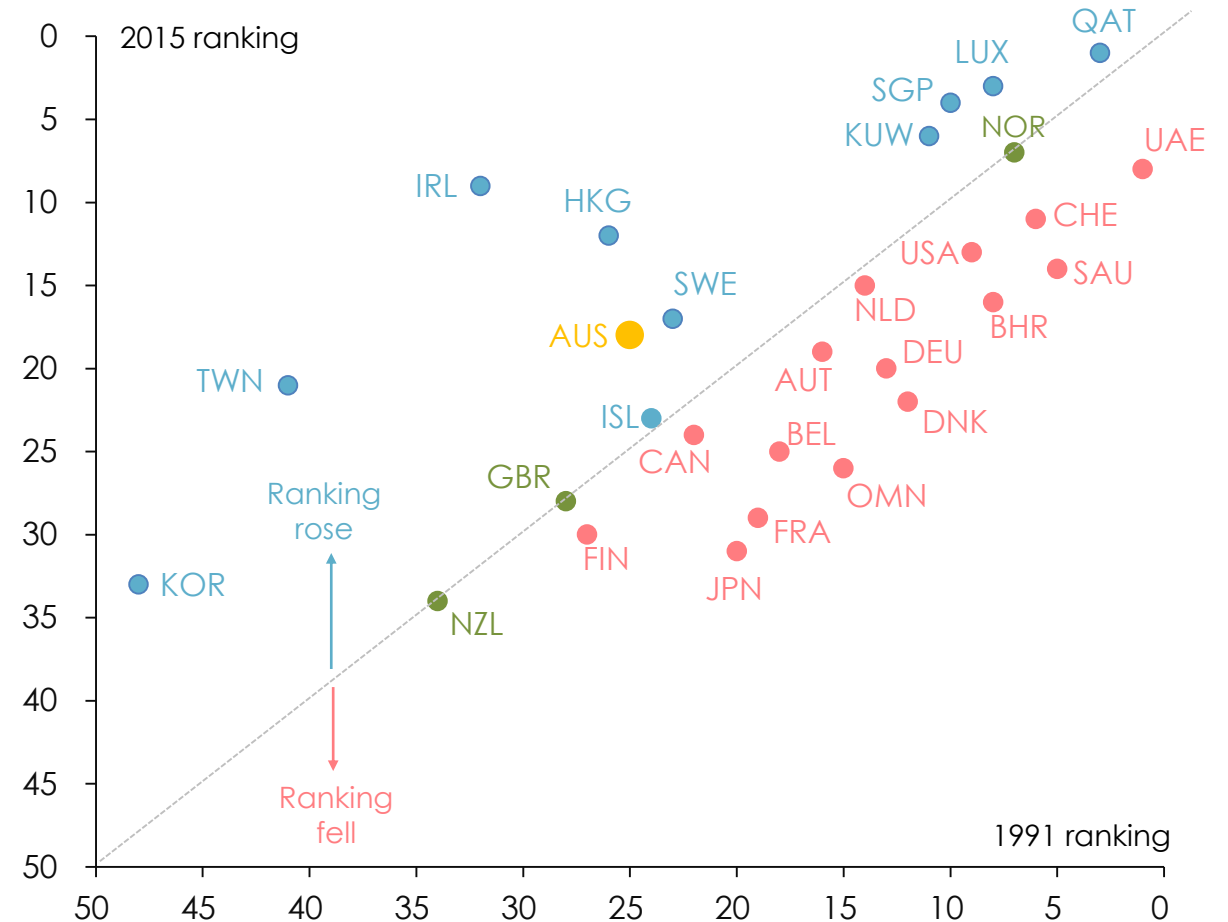
Australia's per capita income has risen significantly relative to other countries over the past 25 years

Australian per capita GDP relative to the United States



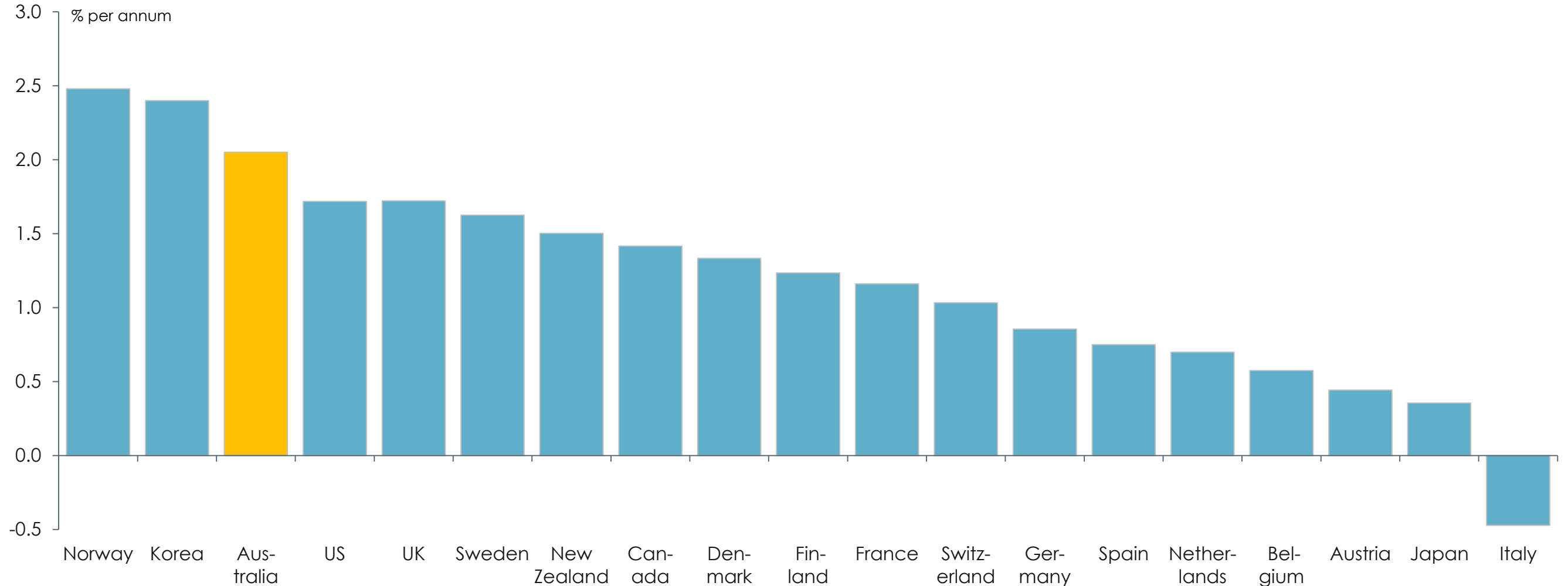
Note: GDP converted from local currency into US\$ at purchasing power parities (PPPs).
Source: International Monetary Fund, [World Economic Outlook database](#), October 2016.

Country rankings in terms of per capita GDP, 1991 and 2015



Australian households have experienced faster growth in per capita real incomes than all but two other OECD countries in the last 25 years

Average annual growth rate of real per capita household disposable income, 1991-2016

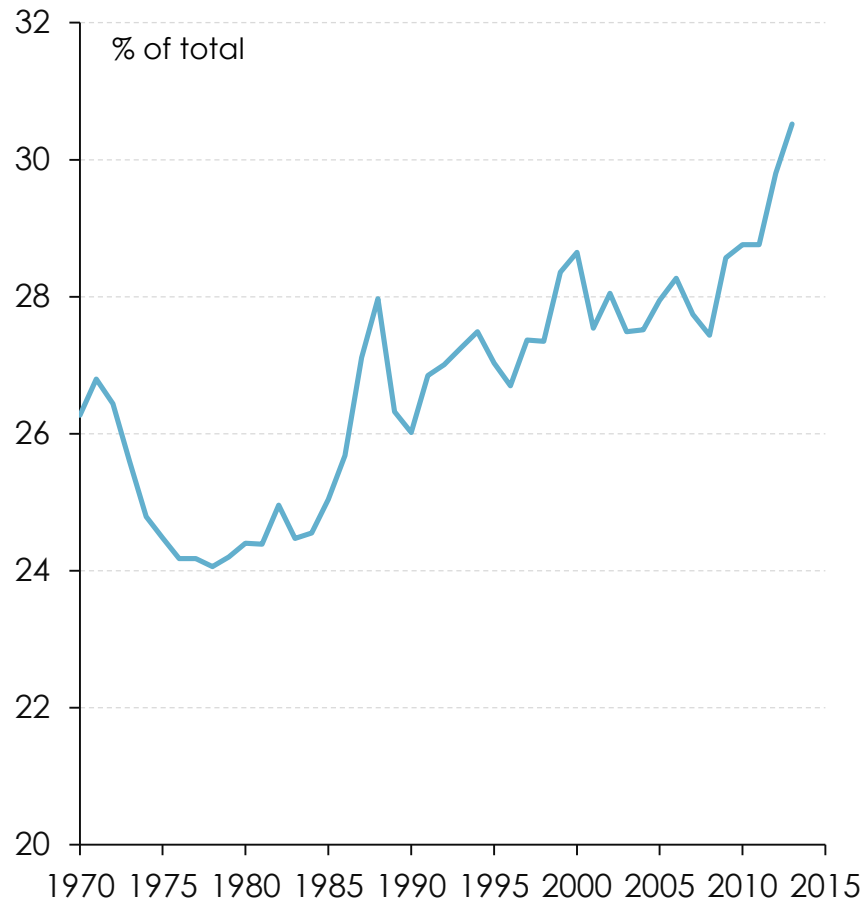


Note: Countries shown are those for which the OECD publishes data on real household disposable income back to 1990.
Sources: OECD, [Economic Outlook Statistical Annex](#), June 2016; IMF, [World Economic Outlook database](#), October 2016.

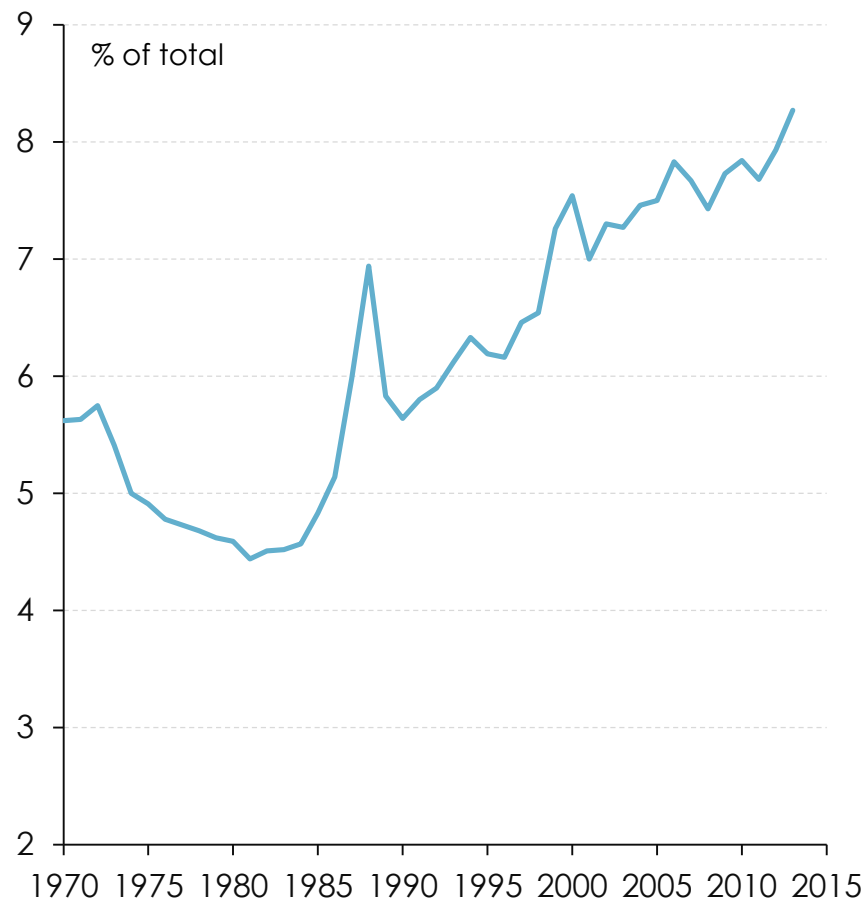
And while those income gains have accrued disproportionately to people at the upper end of the income distribution ...

Upper income groups' share of total pre-tax income in Australia

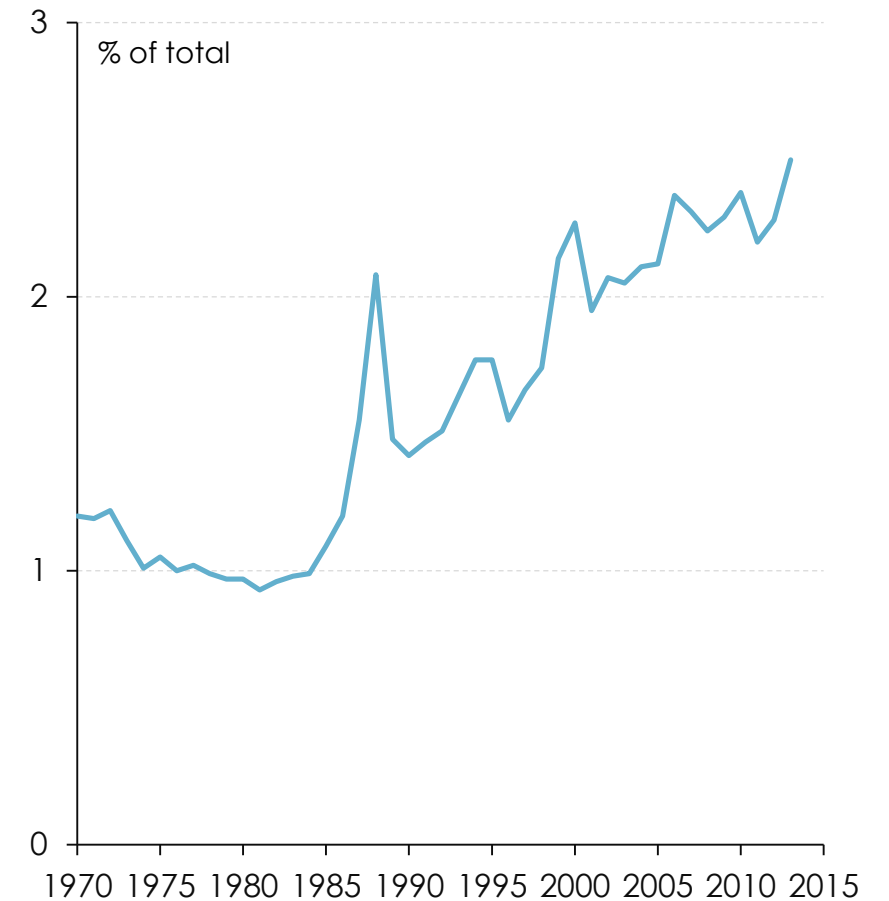
Top 10%



Top 1%



Top 0.1%



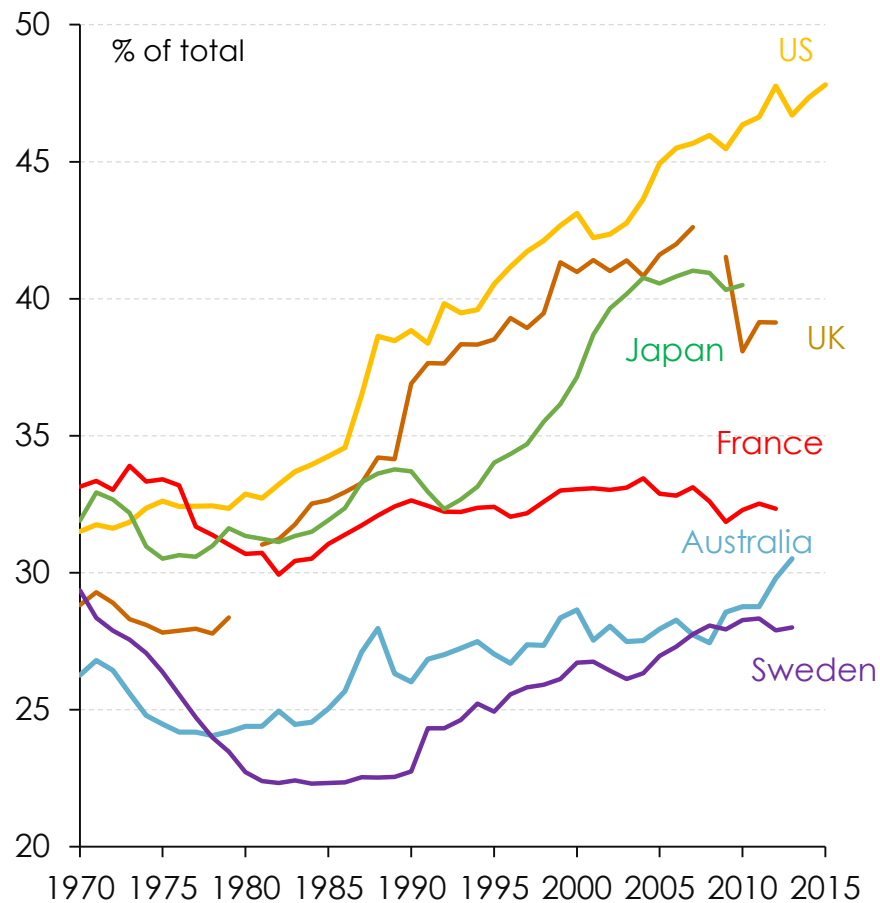
Note: Shares are of pre-tax taxable income as reported to and published by national tax collection agencies.

Source: Facundo Alvaredo, Tony Atkinson, Thomas Piketty, Emmanuel Saez and Gabriel Zucman, [The World Wealth and Income Database](#).

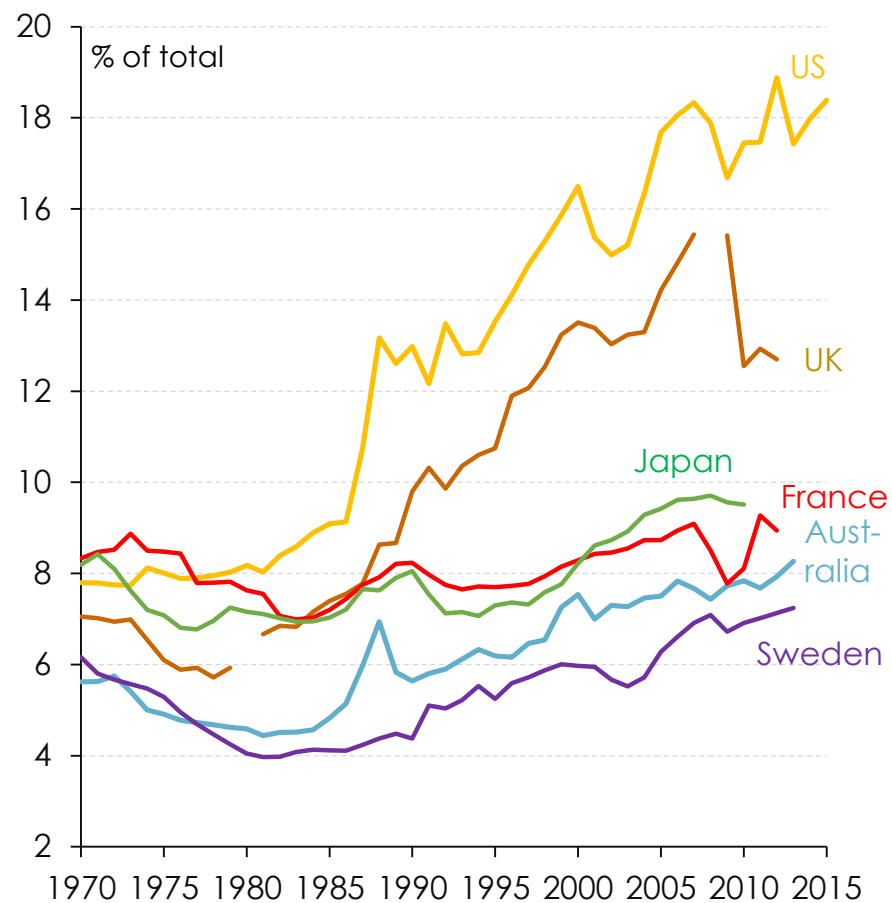
... Australia has actually been at the Swedish end of the international spectrum of trends in income inequality

Upper income groups' share of total pre-tax income in selected 'advanced' economies

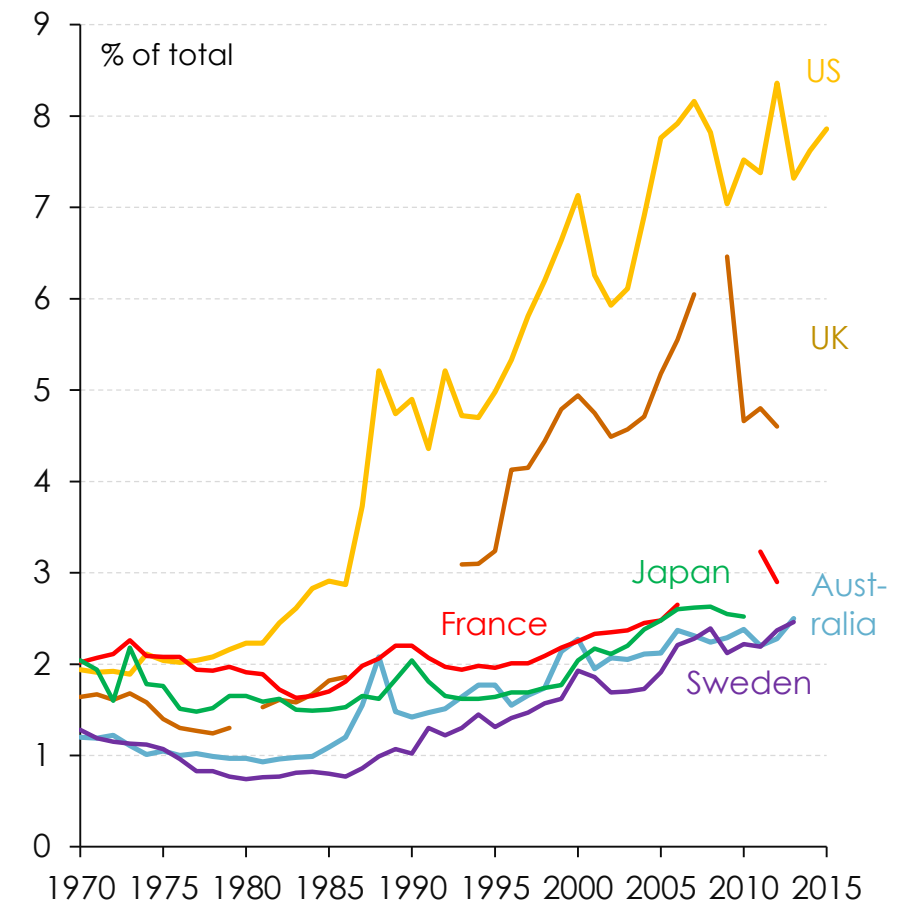
Top 10%



Top 1%



Top 0.1%

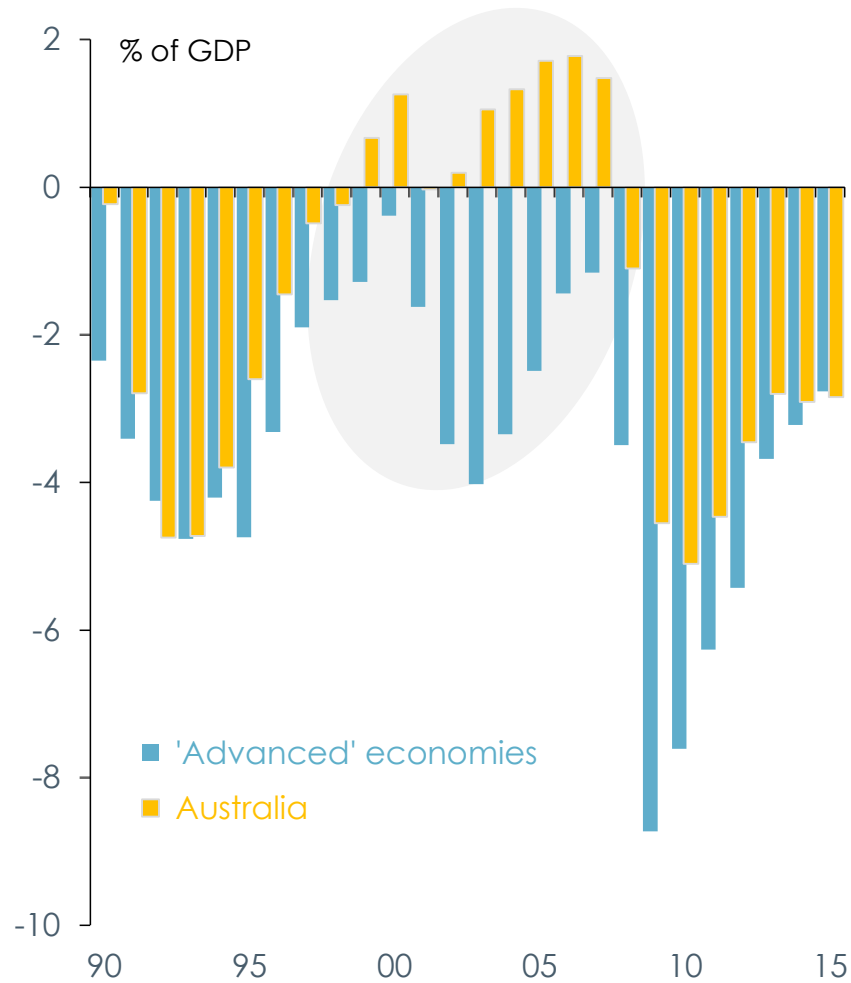


Note: Shares are of pre-tax taxable income as reported to and published by national tax collection agencies.

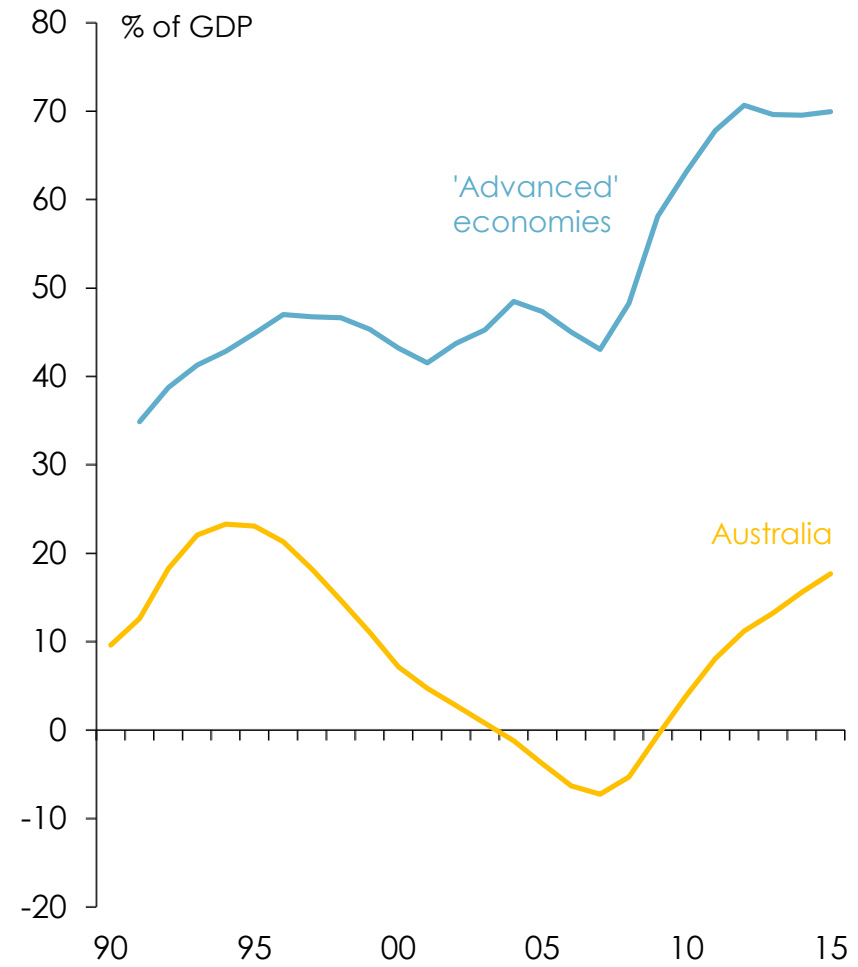
Source: Facundo Alvaredo, Tony Atkinson, Thomas Piketty, Emmanuel Saez and Gabriel Zucman, [The World Wealth and Income Database](#).

Australia's relatively good economic performance over the past 25 years reflects a combination of good management ...

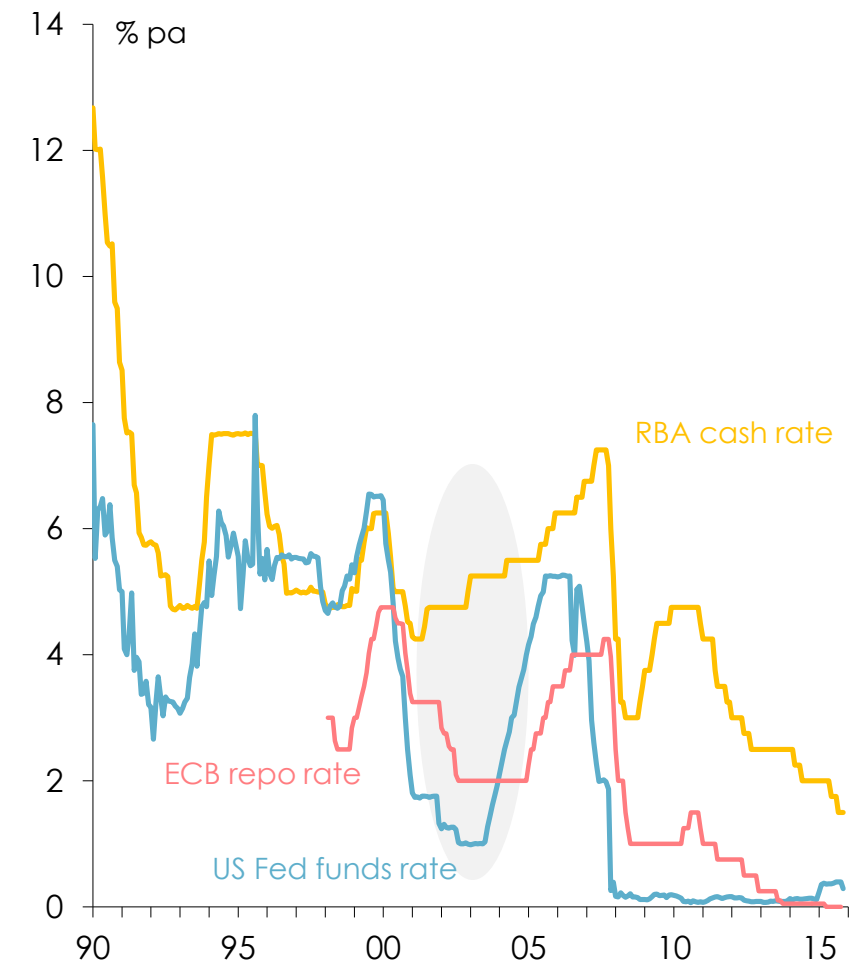
'General government' net lending



'General government' net debt



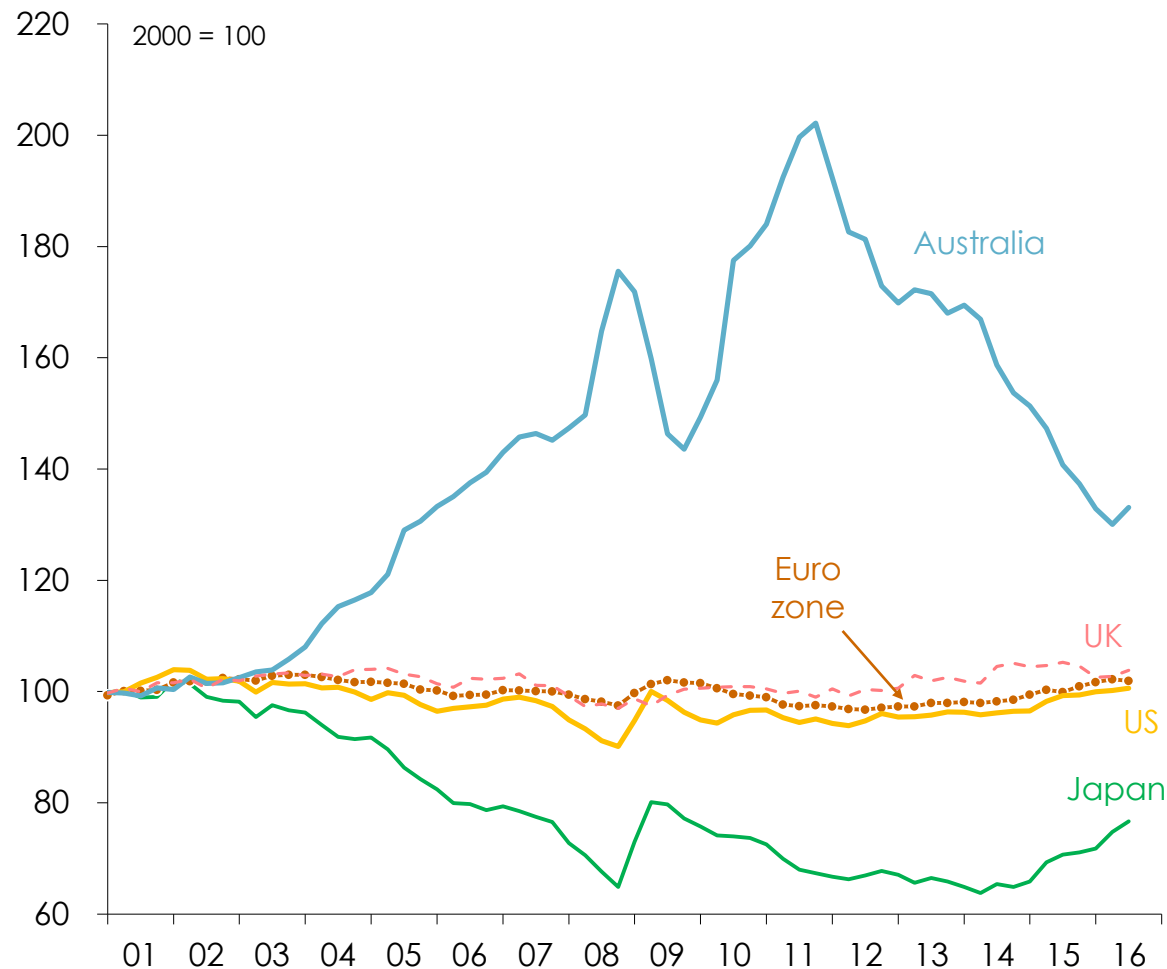
Monetary policy interest rates



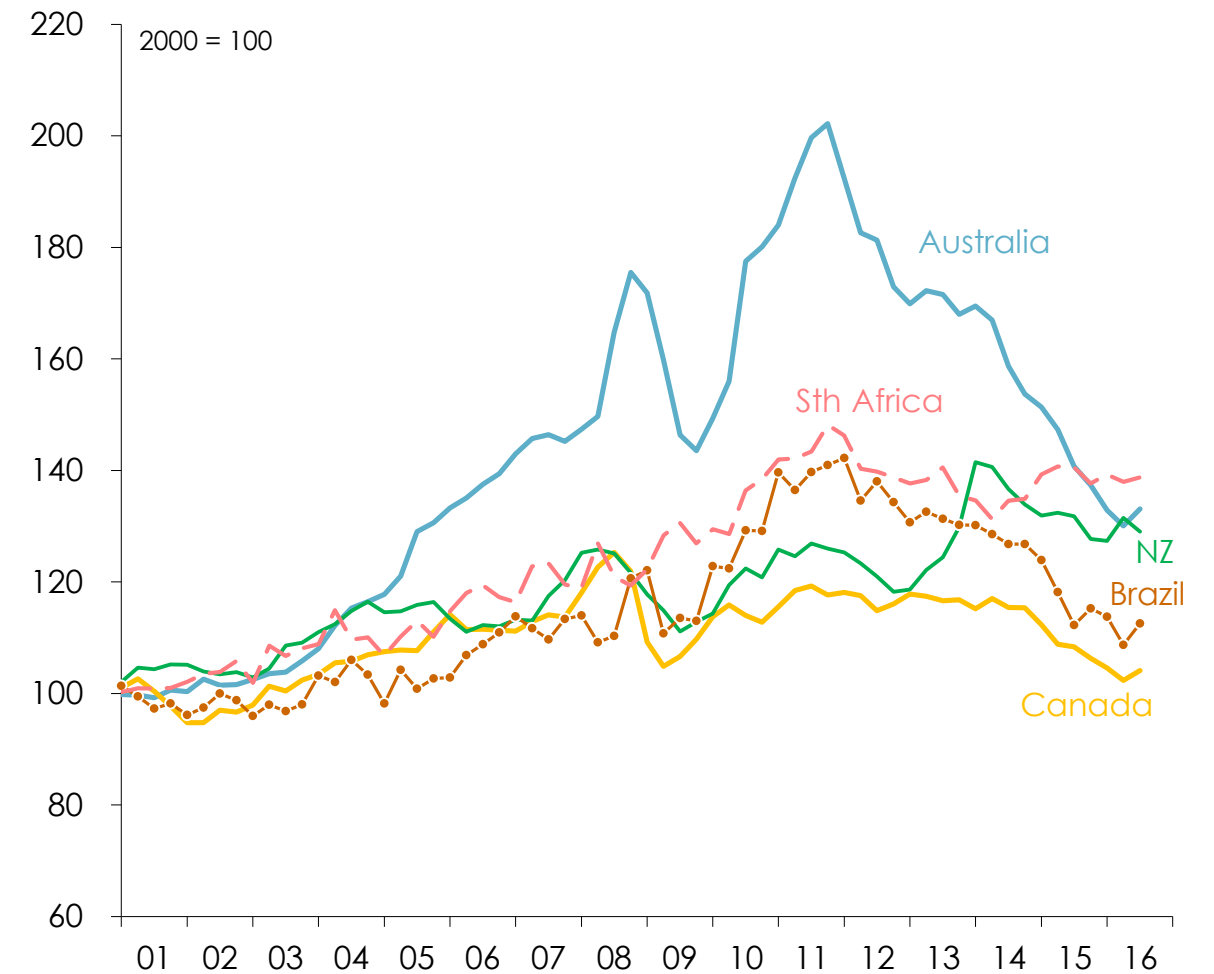
Sources: IMF, [World Economic Outlook database](#), October 2016; Reserve Bank of Australia, US Federal Reserve & European Central Bank.

... and good luck, principally as a result of our unusual (for an 'advanced' economy) economic relationship with China

'Terms of trade' – Australia vs other 'advanced' economies



'Terms of trade' – Australia vs other commodity-exporting economies

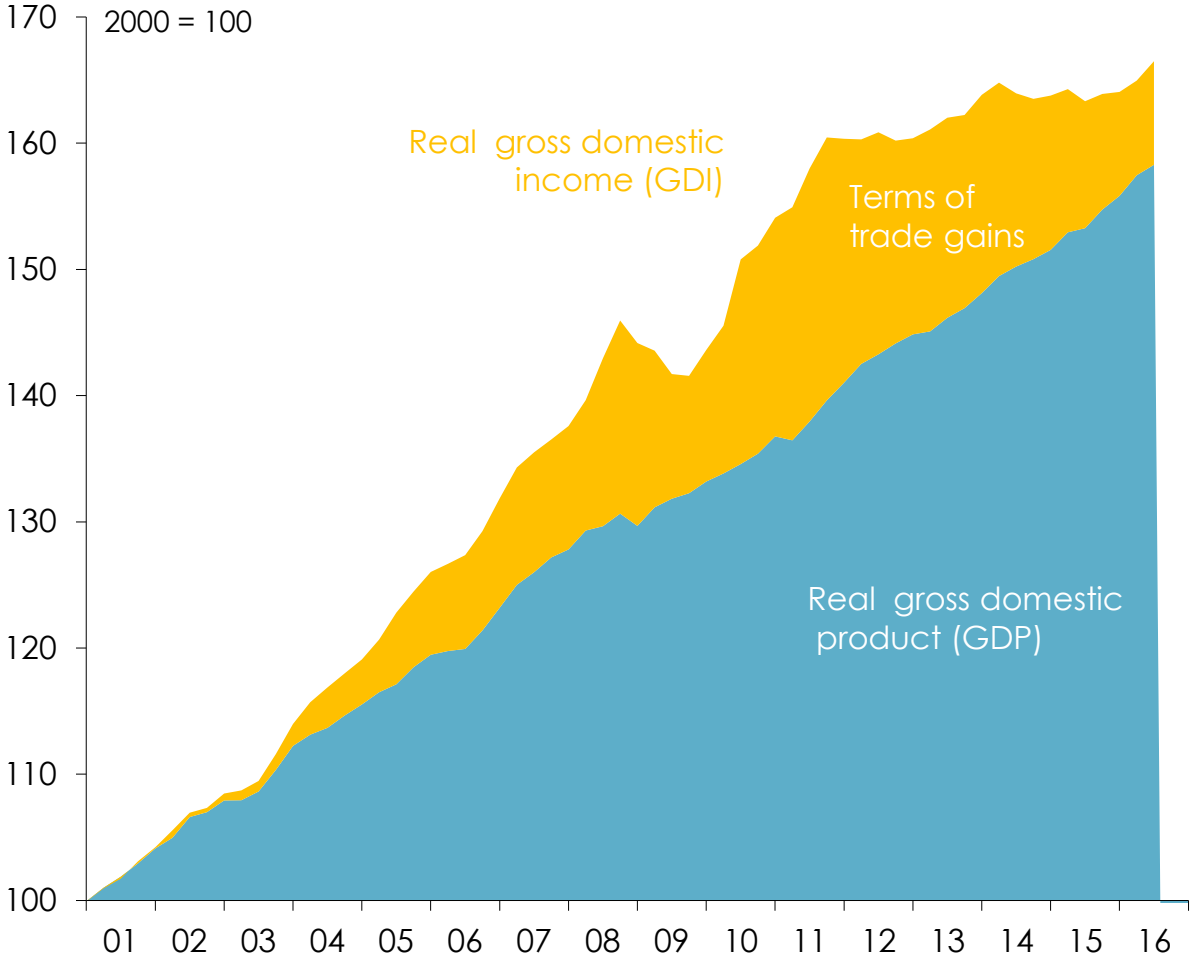


Note: 'The 'terms of trade' is the ratio of the implicit price deflator of exports of goods and services to the implicit price deflator of imports of goods and services.

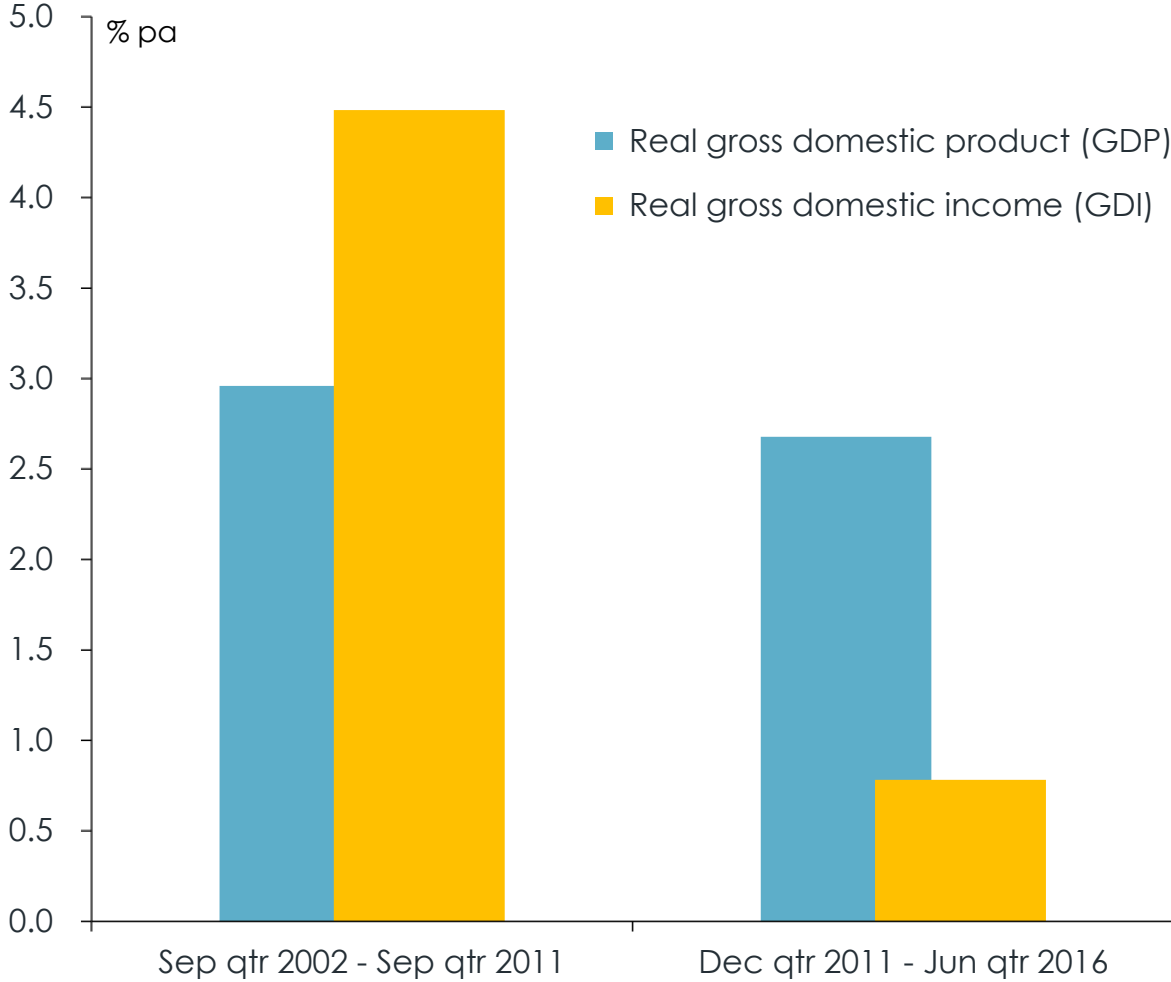
Sources: ABS; US Bureau of Economic Analysis; Eurostat; UK Office for National Statistics; Japan Economic & Social Research Institute; Statistics NZ; Statistics Canada; Statistics South Africa; Instituto Brasileiro de Geografia e Estatística; author's calculations.

The huge rise in Australia's 'terms of trade' represented a substantial addition to Australia's real income – which is now receding

Gains in real gross domestic income arising from changes in 'terms of trade'



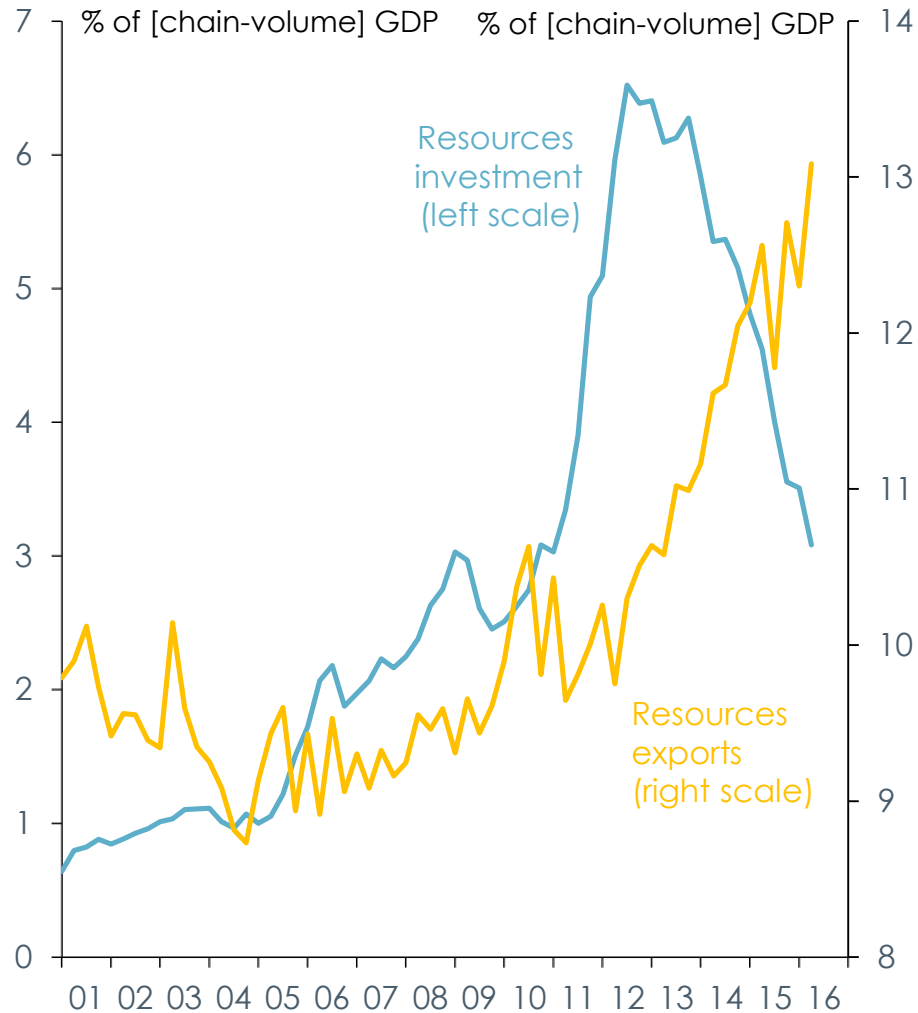
Growth in real gross domestic income (GDI) vs real gross domestic product (GDP)



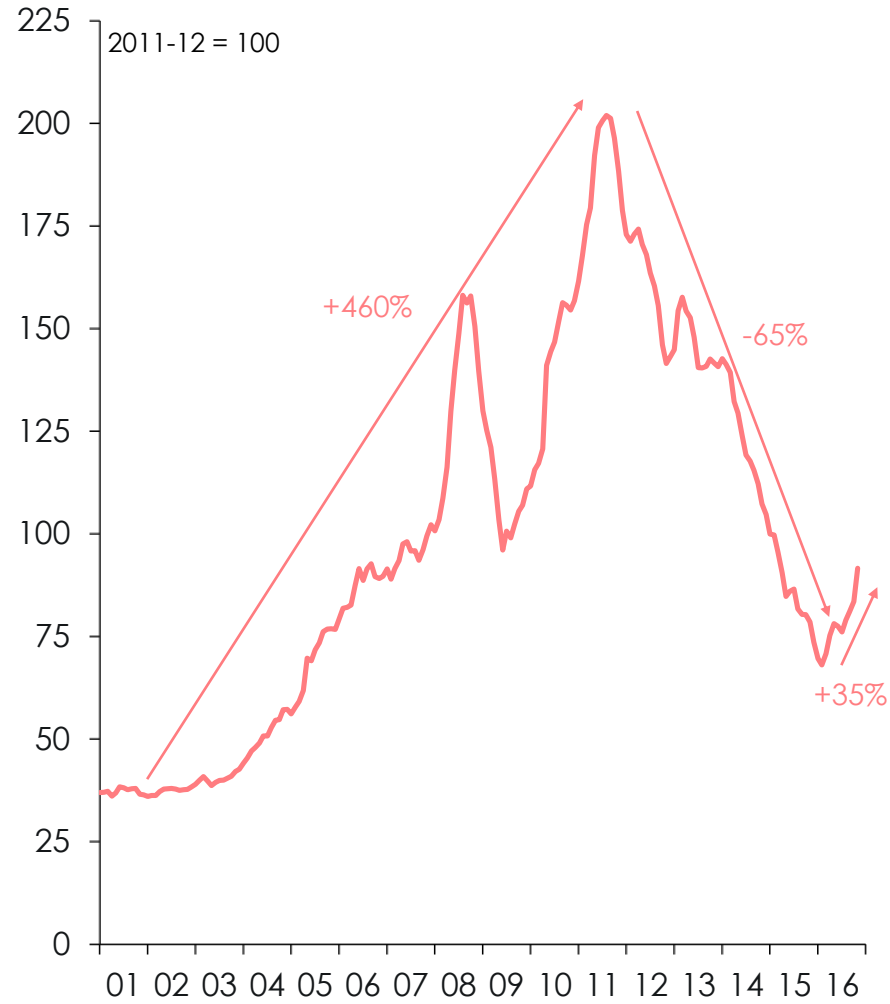
Note: 'The 'terms of trade' is the ratio of the implicit price deflator of exports of goods and services to the implicit price deflator of imports of goods and services. Real gross domestic income (GDI) is real gross domestic product (GDP) adjusted for income gains or losses arising from changes in the terms of trade. Source: ABS.

The resources investment boom is over – and while resources exports are rising, they are at falling prices and don't employ as many workers

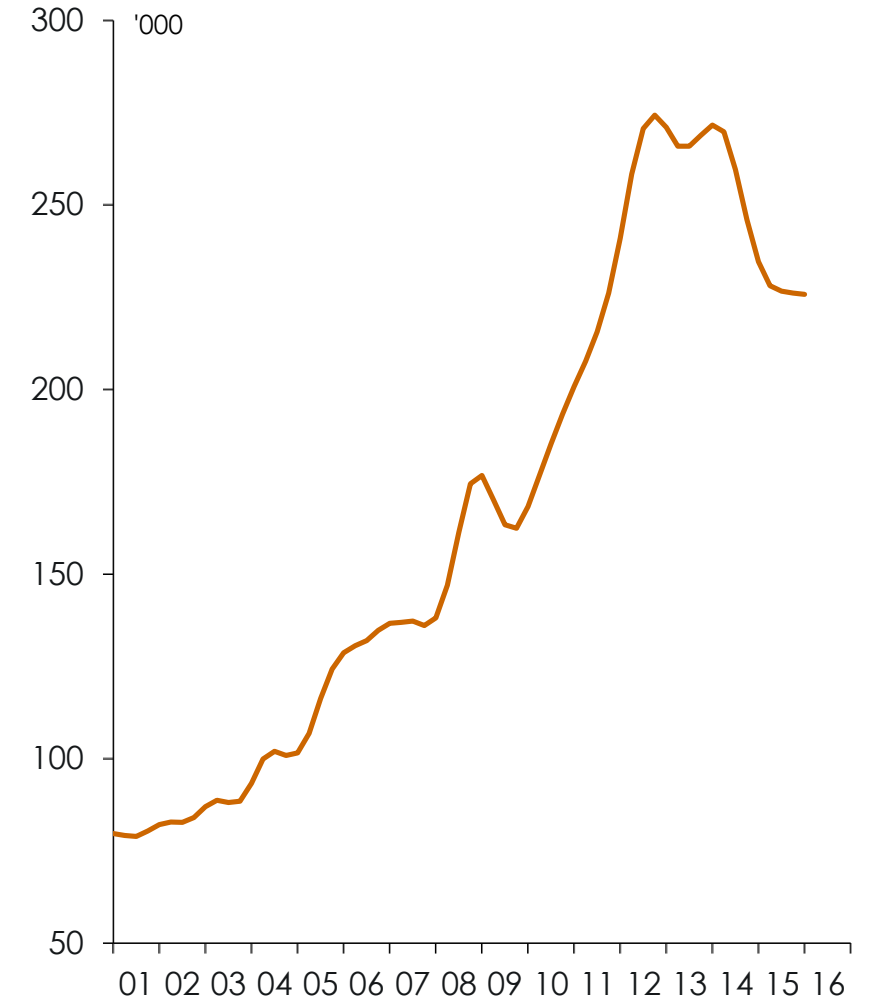
Australia's resources investment & export volumes



Australia's resources export prices



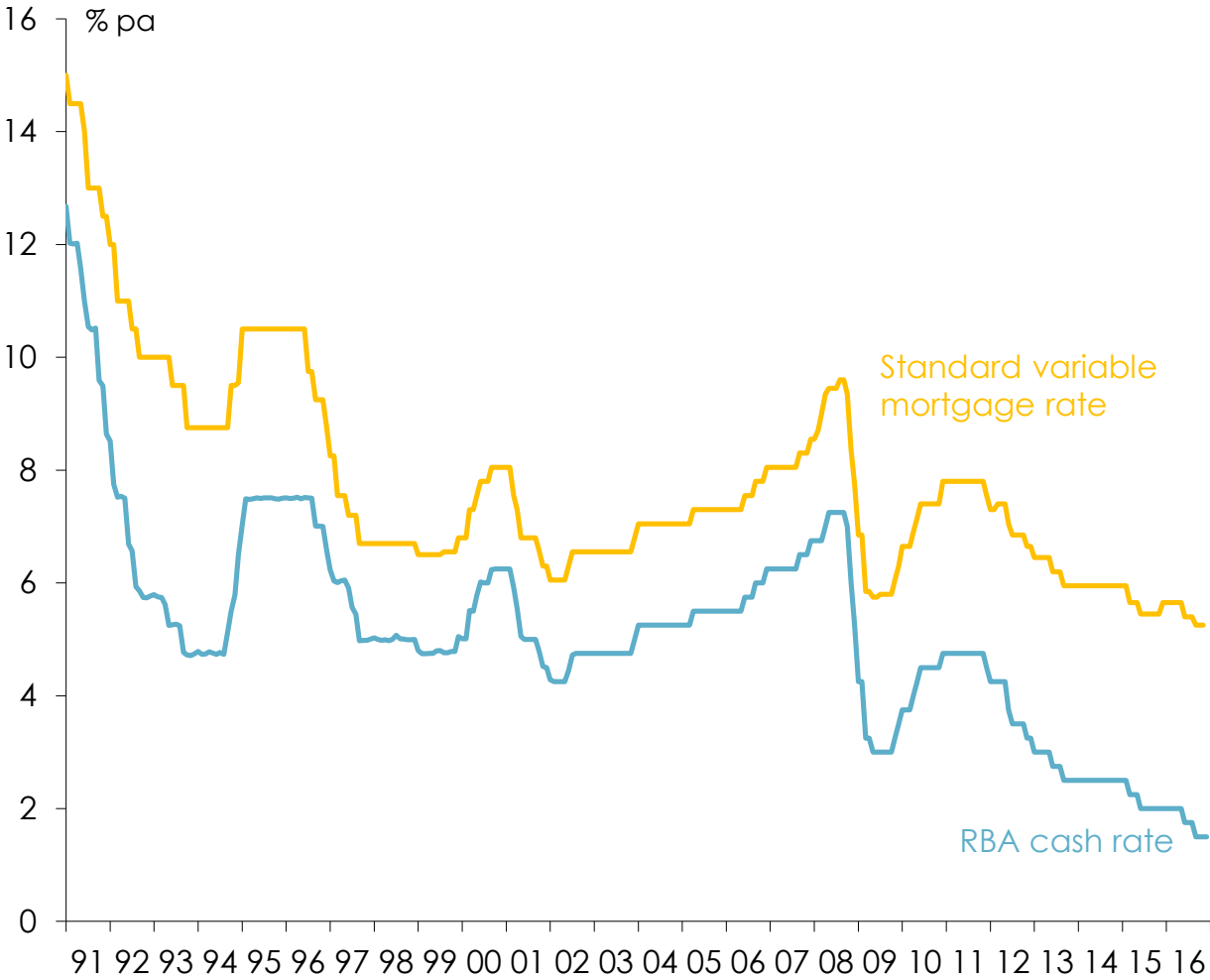
Australia's mining sector employment



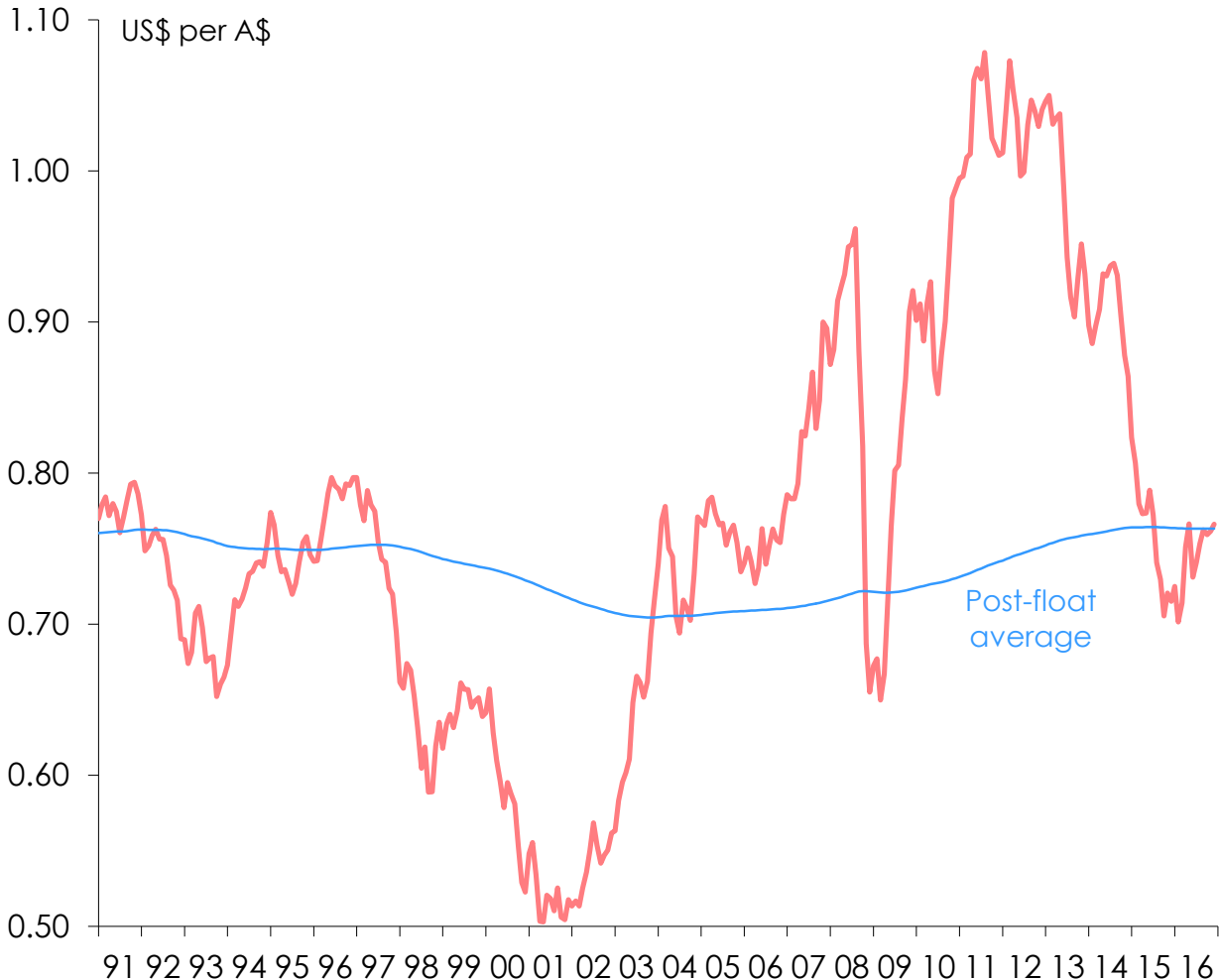
Note: Resources investment includes exploration expenditure.
Source: ABS.

Australia is relying on record-low interest rates and a (now) below-its-long-term-average Australian dollar to support economic growth

Australian interest rates



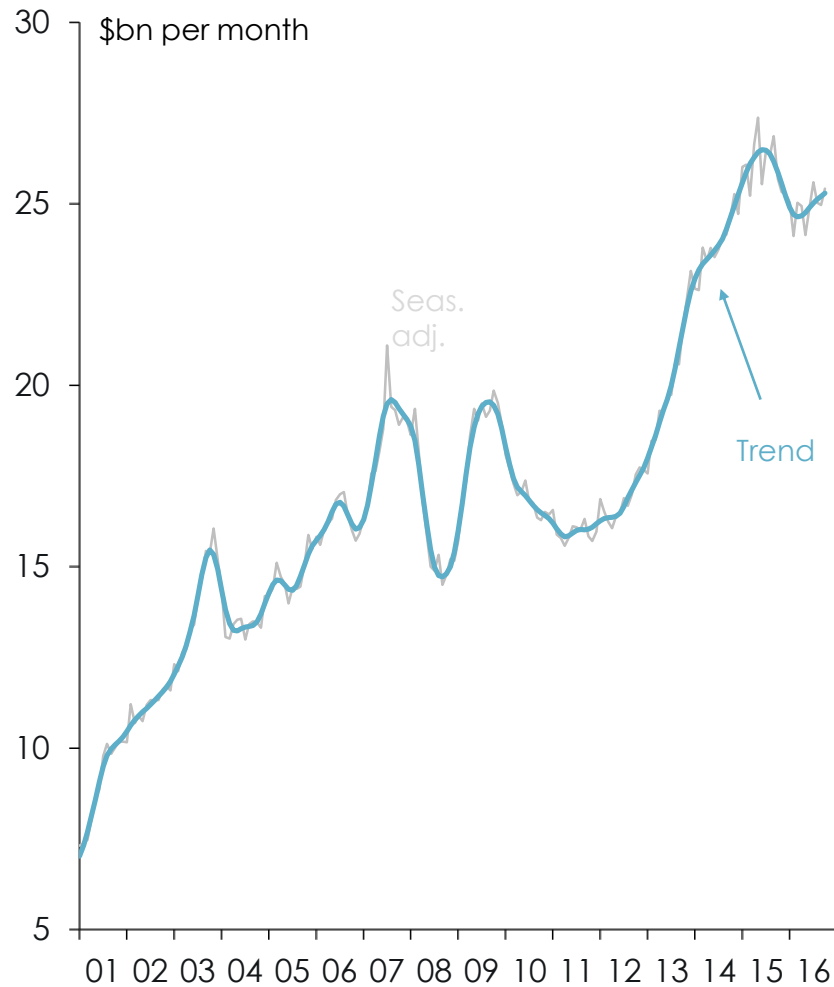
Australian dollar



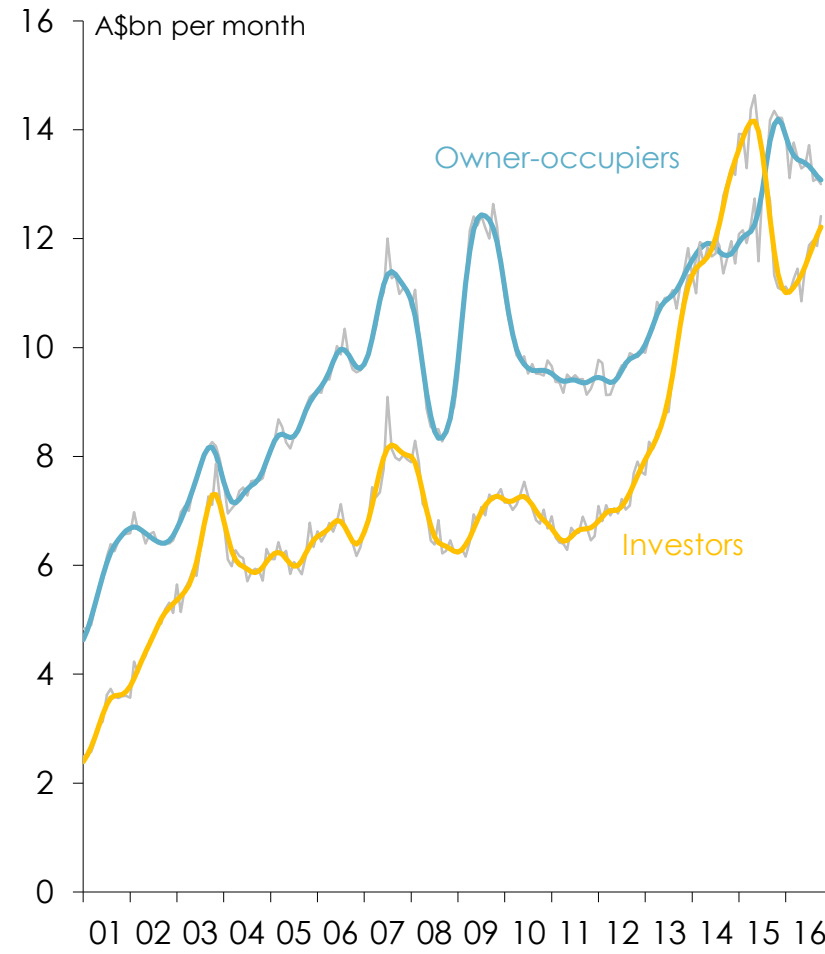
Source: Reserve Bank of Australia.

Record-low interest rates have stimulated a substantial rise in housing demand – and (aided by foreign investors) in building activity

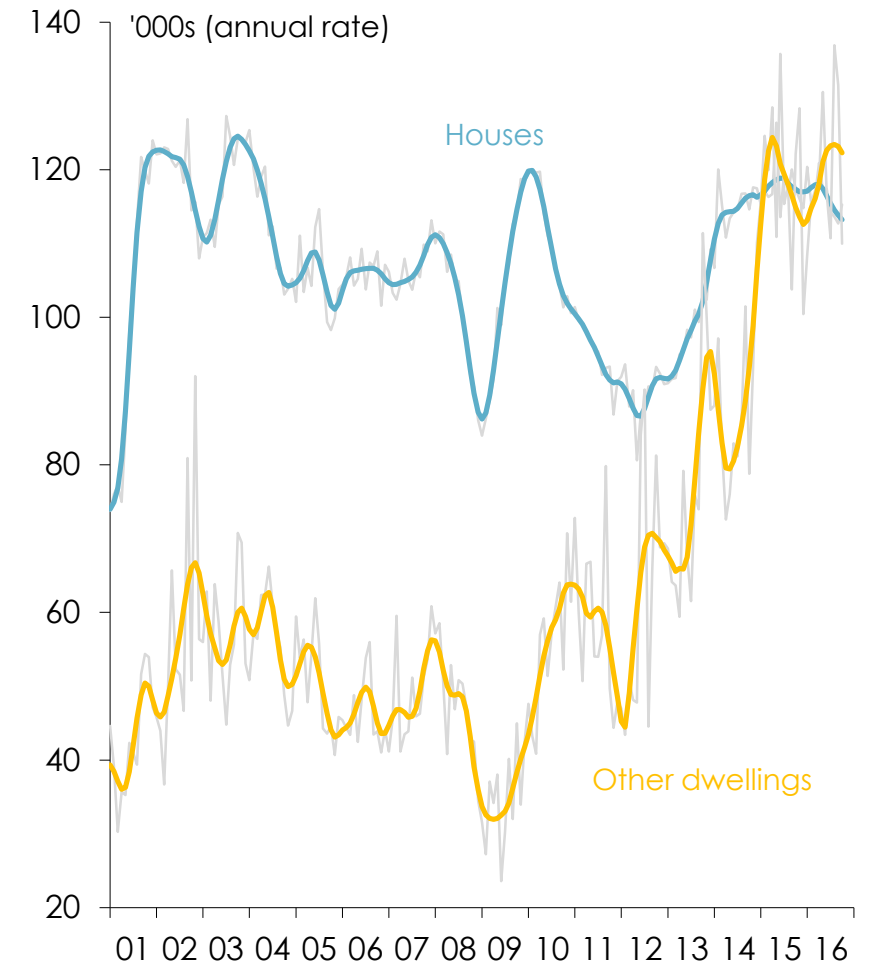
Lending for housing



Lending for housing, by type of borrower



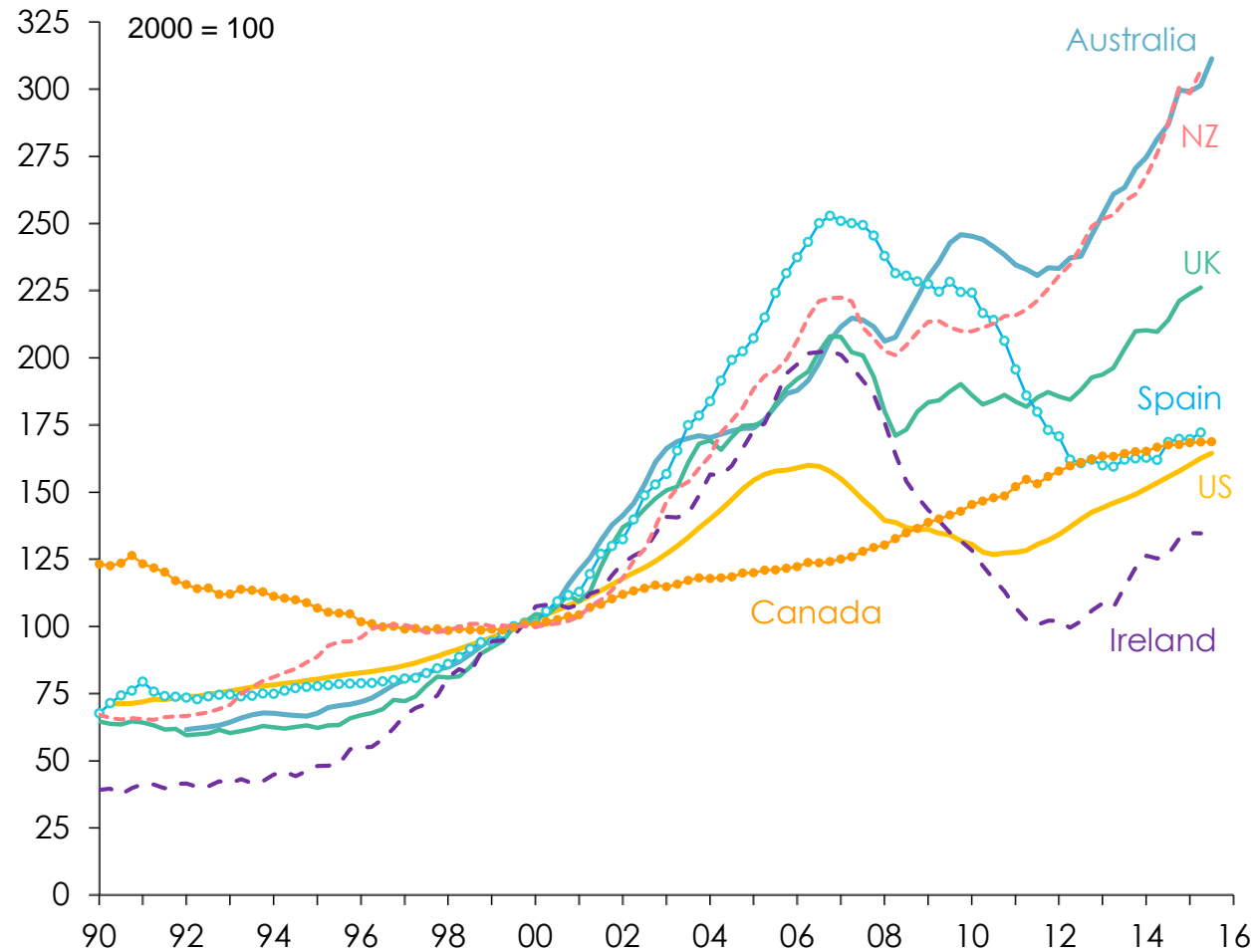
Private residential building approvals, by type of dwelling



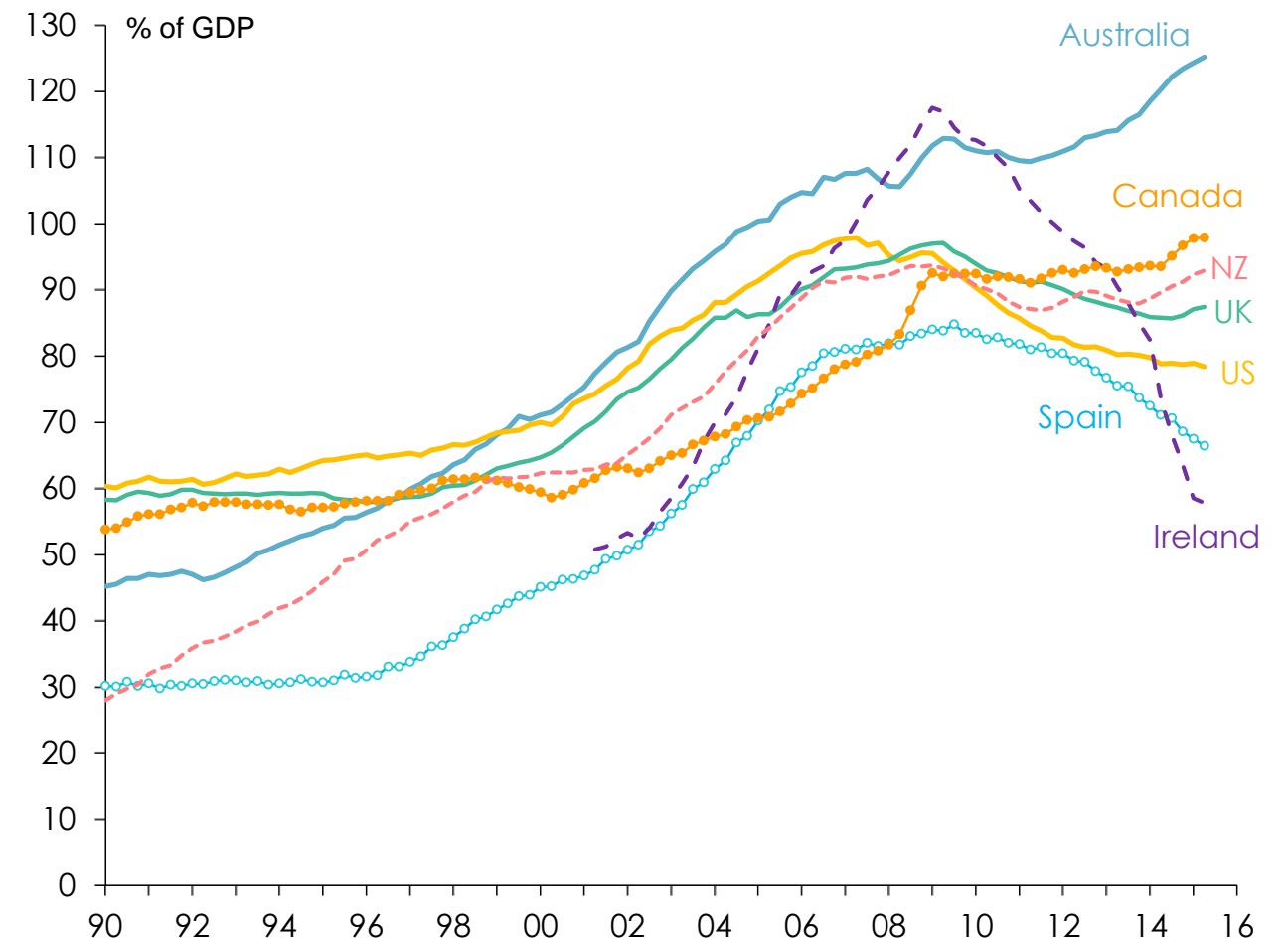
Note: grey lines in first and second charts above show seasonally adjusted data; thicker coloured lines are the ABS 'trend estimates'.
Source: ABS.

Australia now has relatively high residential property prices (by international standards) and very high levels of household debt

House prices – Australia vs other 'advanced' economies



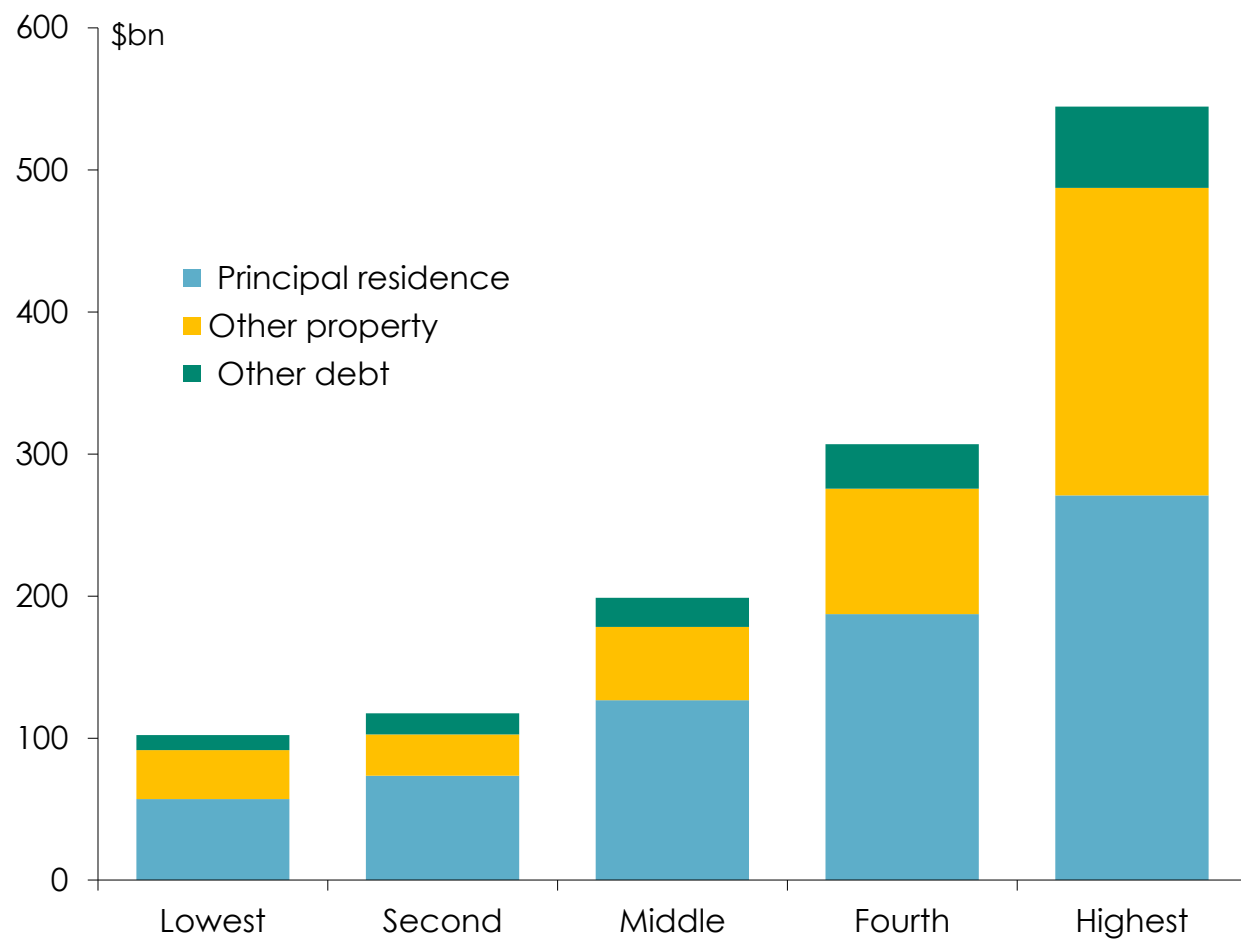
Household debt – Australia vs other 'advanced' economies



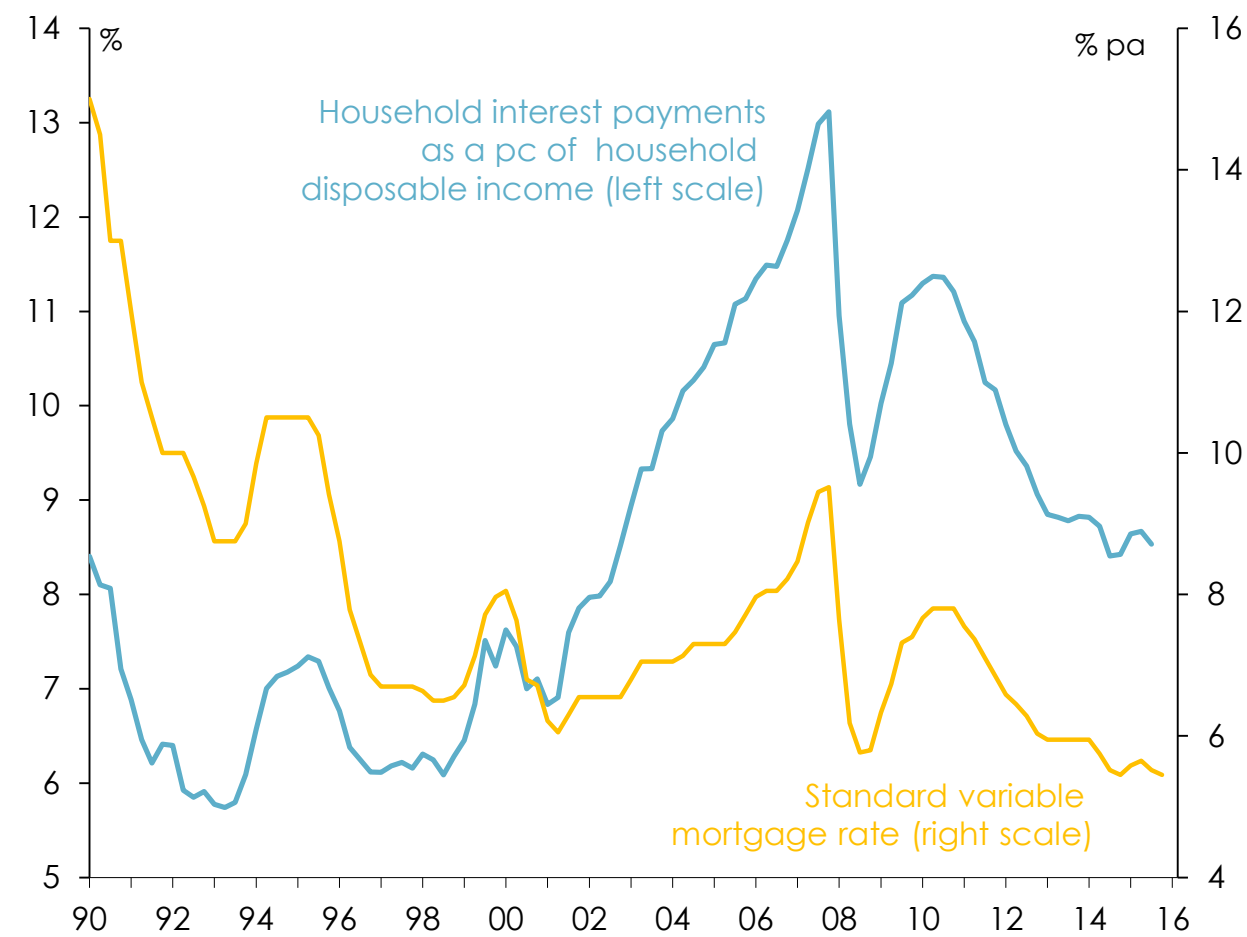
Sources: [RP Data - Core Logic](#); [S&P, CoreLogic Case-Shiller Home Price Indices](#); Bank for International Settlements (BIS), [residential property price series](#) and [credit to the non-financial sector](#) database.

Over two-thirds of Australian household debt is owed by the top 40% of households – and at current interest rates debt-service burdens are low

Household debt, by income quintile, 2013-14



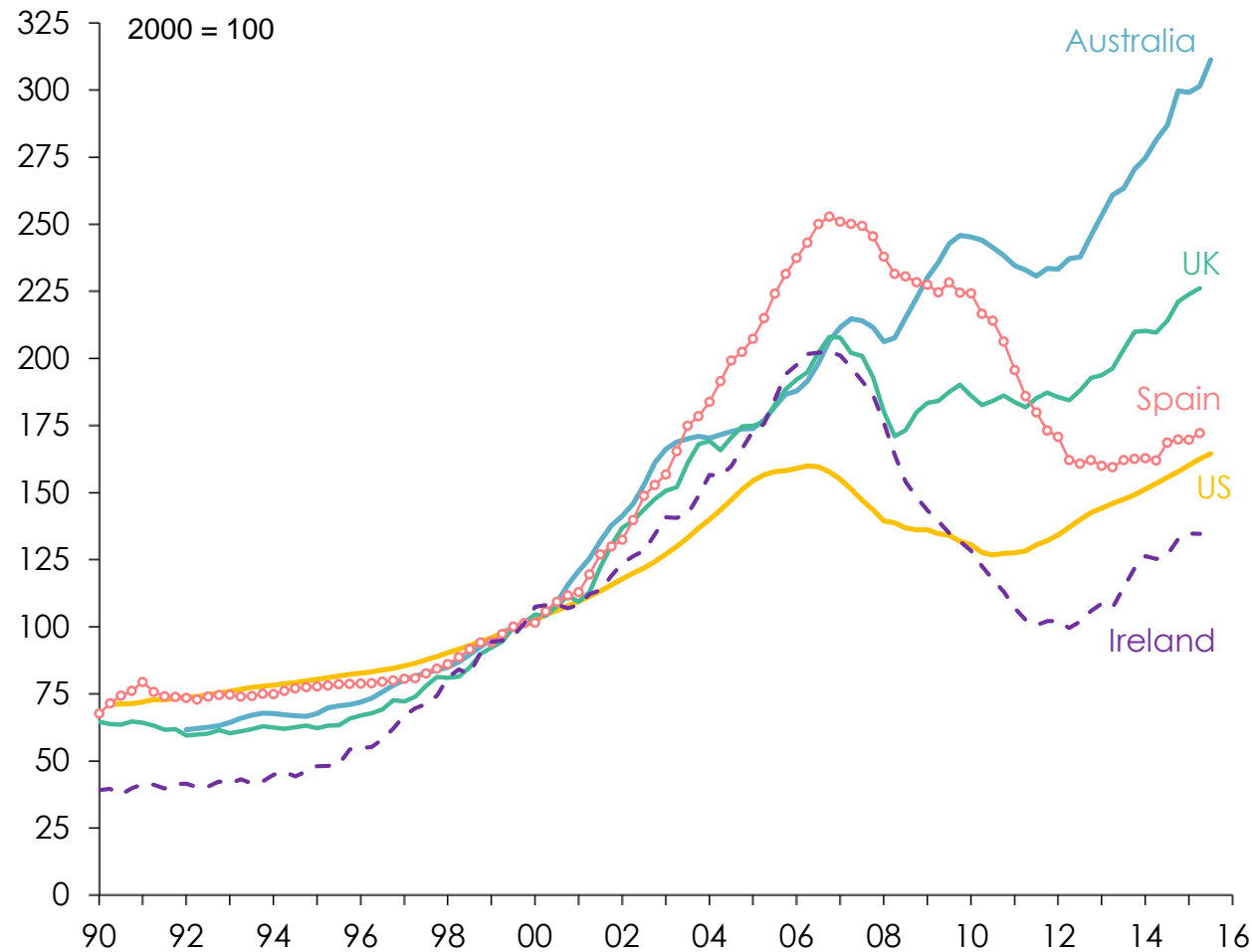
Household debt service ratio and interest rates



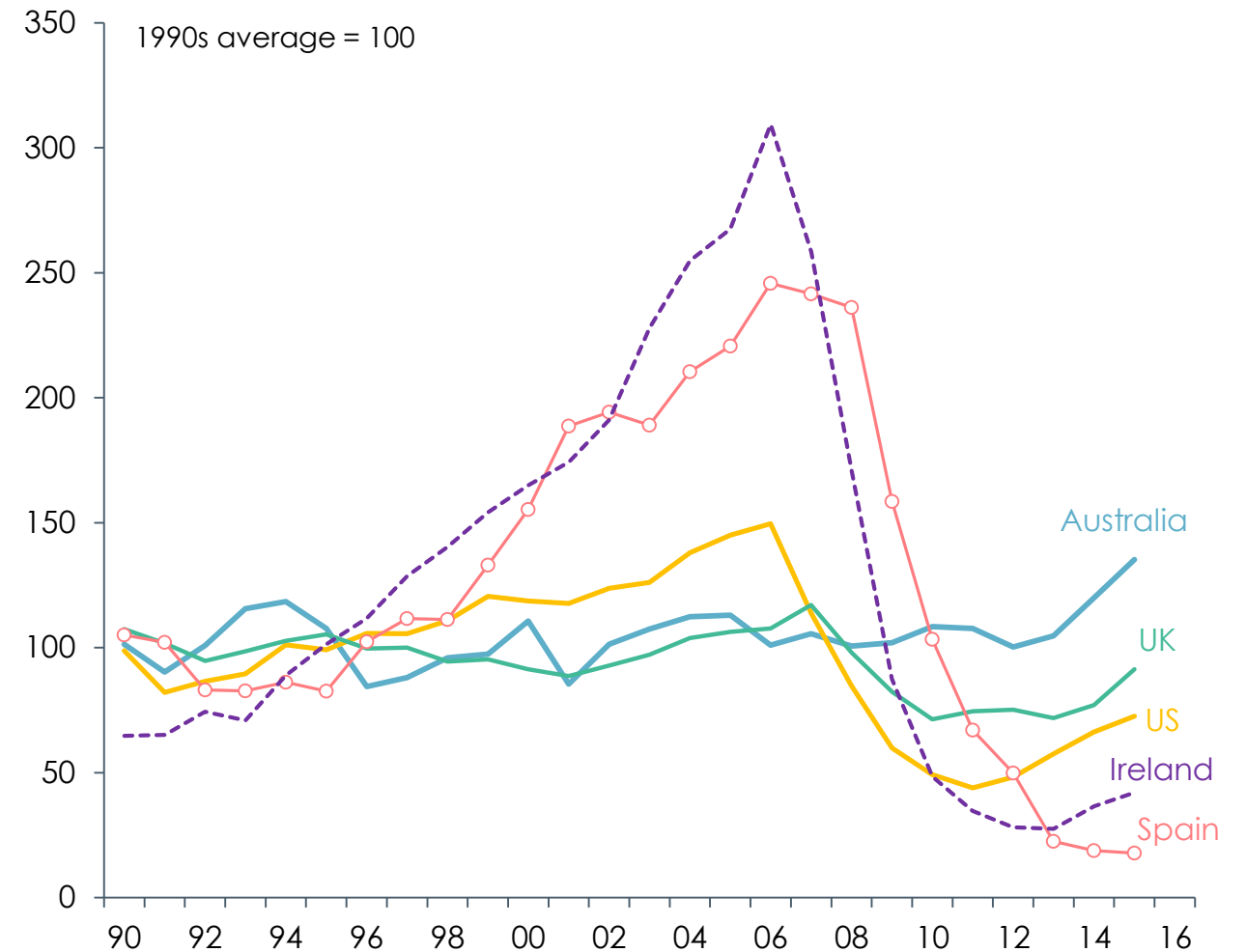
Sources: ABS; RBA.

Countries which have experienced 'housing busts' have done so after periods in which growth in housing supply outstripped housing demand

House prices – Australia vs other 'advanced' economies



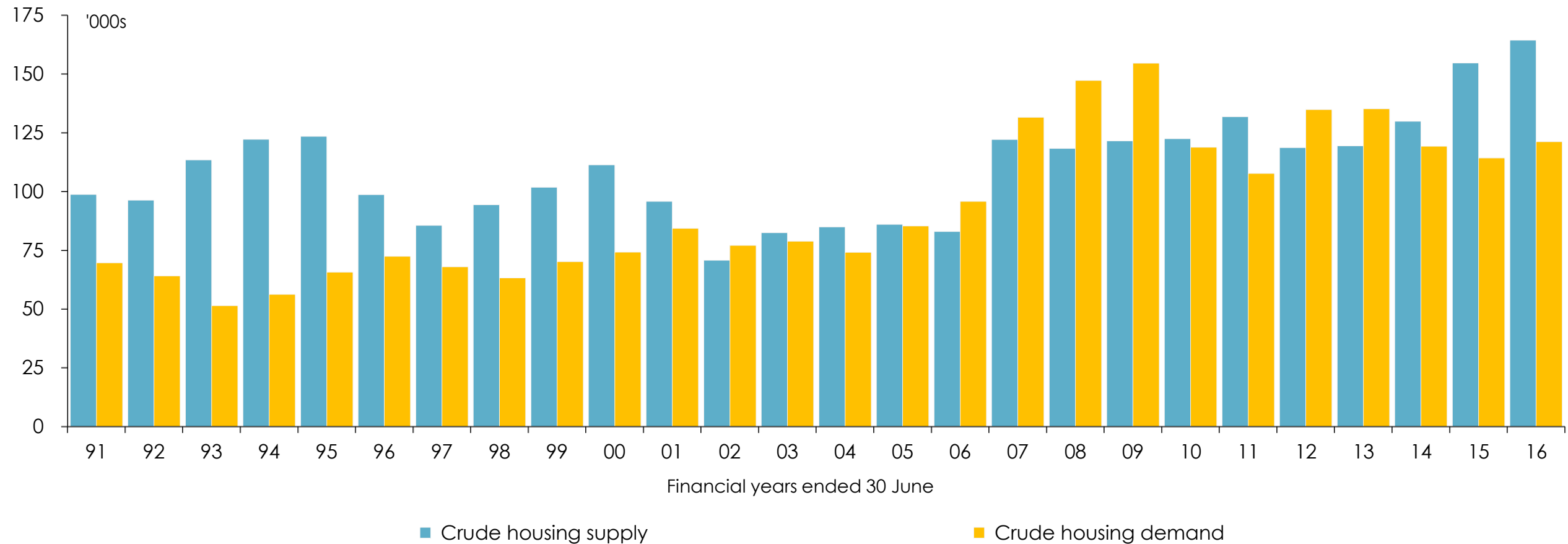
Housing completions – Australia and other selected 'advanced' economies



Sources: [RP Data - Core Logic](#); S&P, [CoreLogic Case-Shiller Home Price Indices](#); Bank for International Settlements (BIS), [residential property price series](#) and [credit to the non-financial sector](#) database.

The balance between supply and 'underlying' demand in the Australian housing market may change significantly over the next few years

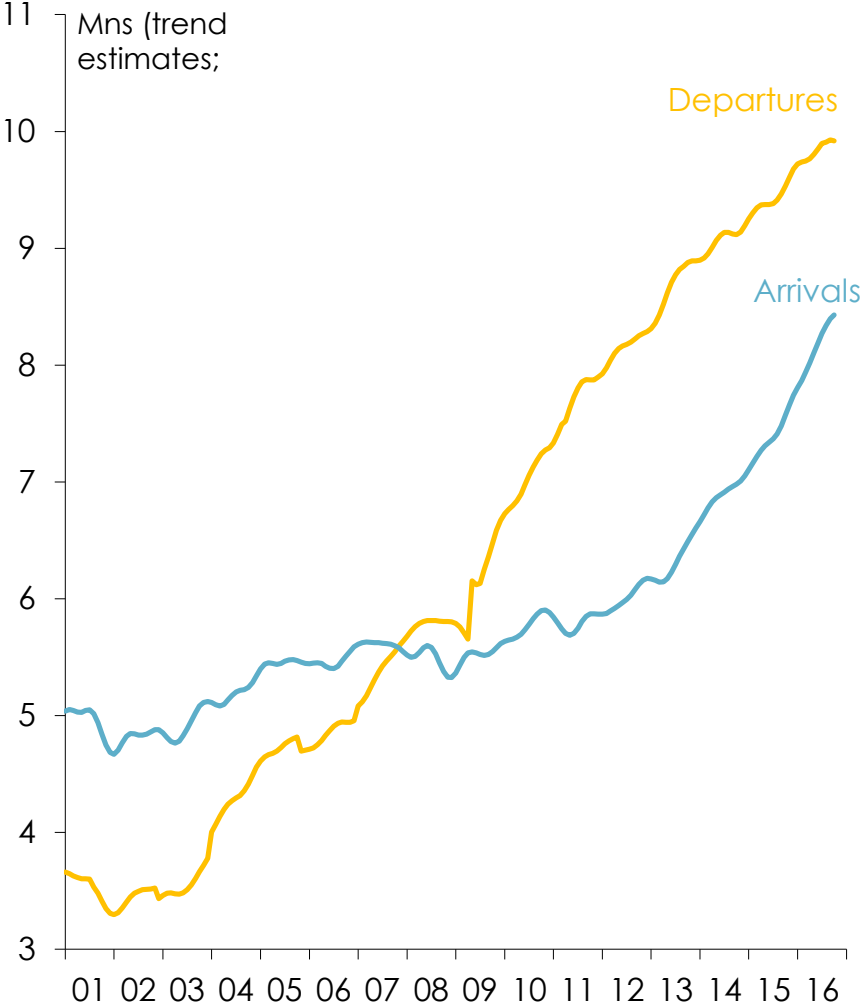
Crude measures of Australian housing supply and demand



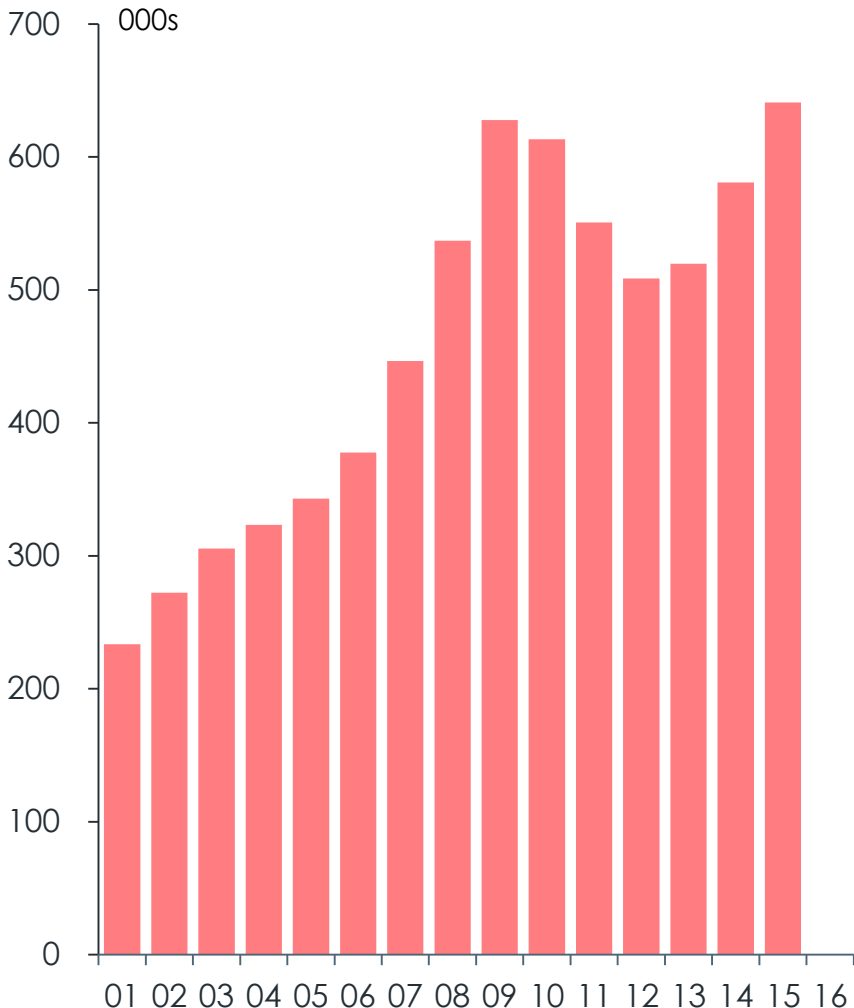
'Crude housing supply' is residential building completions, discounted by the difference between completions and the increase in occupied private dwellings between the two preceding censuses. 'Crude housing demand' is the increase in the population, divided by the average number of persons per occupied private dwelling at the preceding census. Note that other factors apart from housing supply and demand (including for example, the availability and cost of mortgage finance, and changes in government policies) will also affect **actual** housing demand and supply.

The fall in the A\$ has provided a significant boost to exports of services - and of primary and processed food and beverages

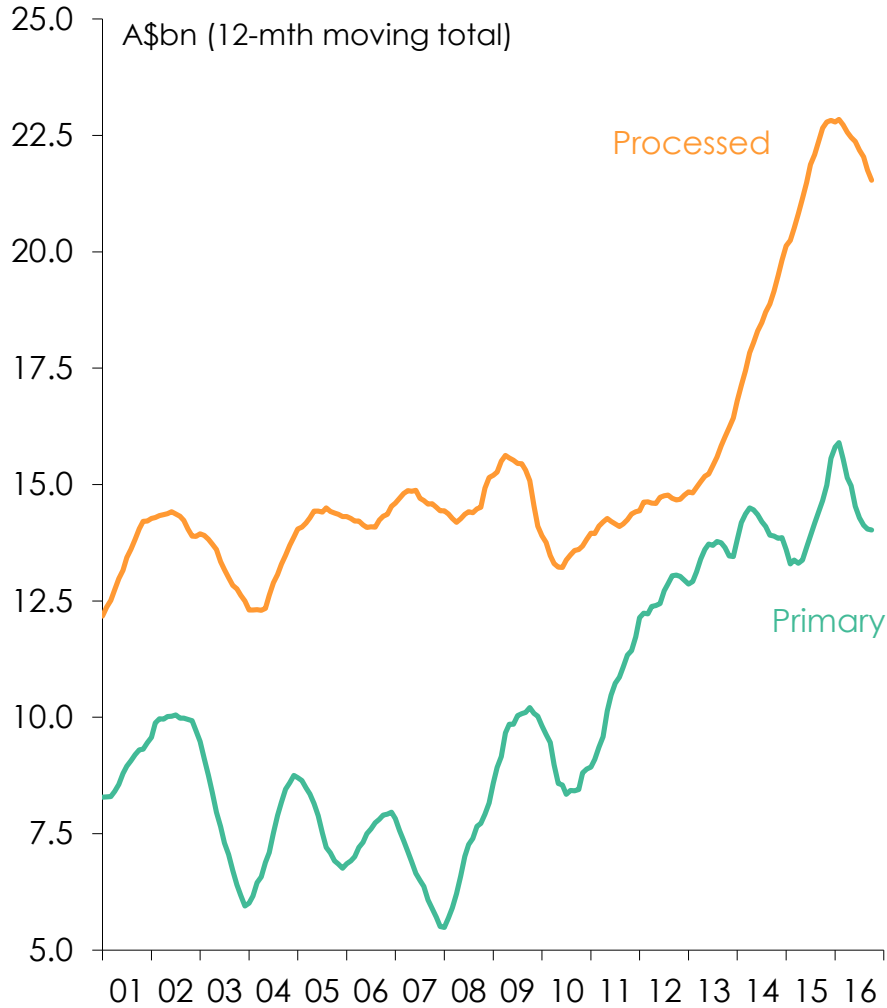
Short-term overseas arrivals and departures



Overseas student enrolments



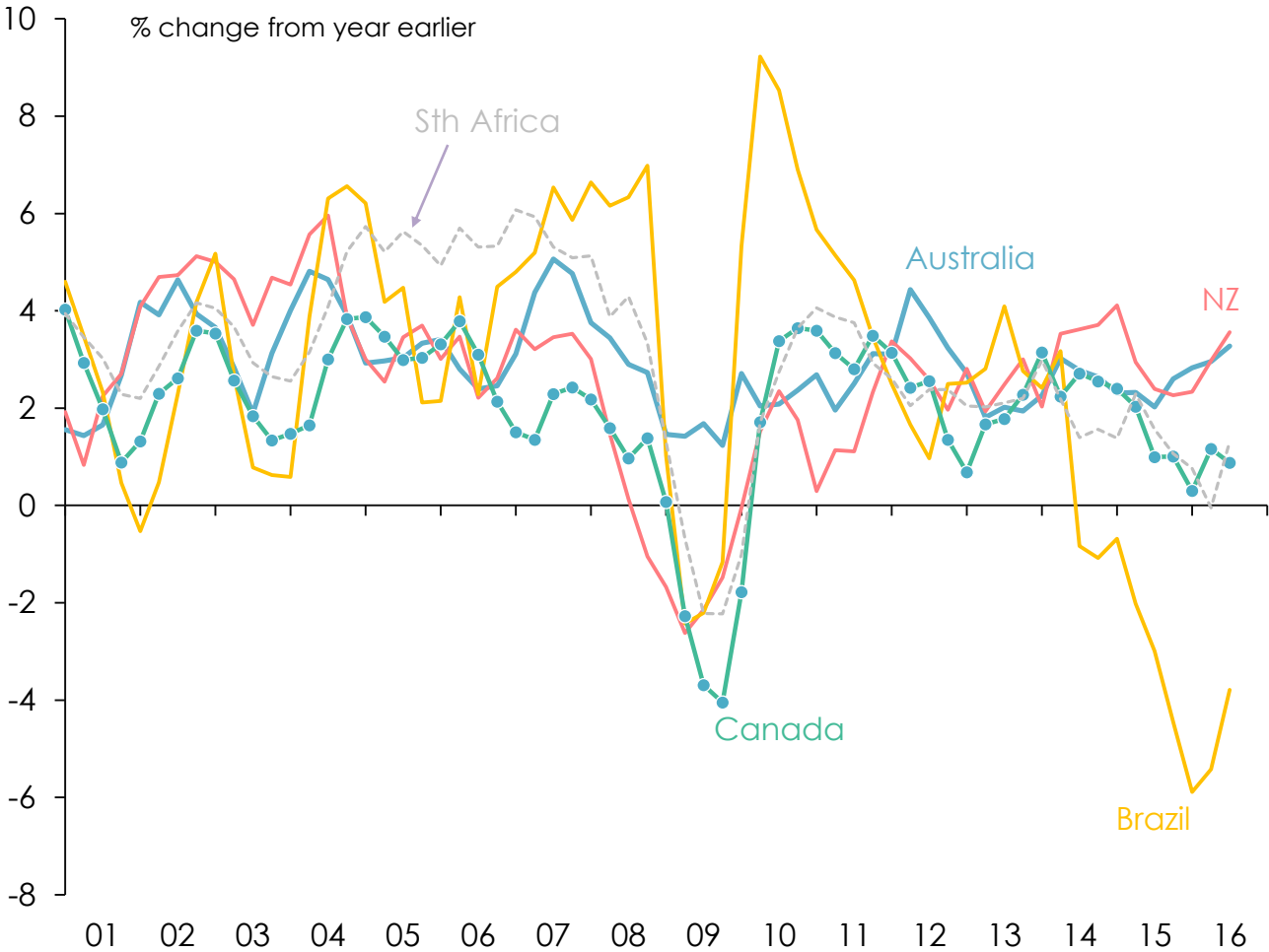
Food and beverages exports



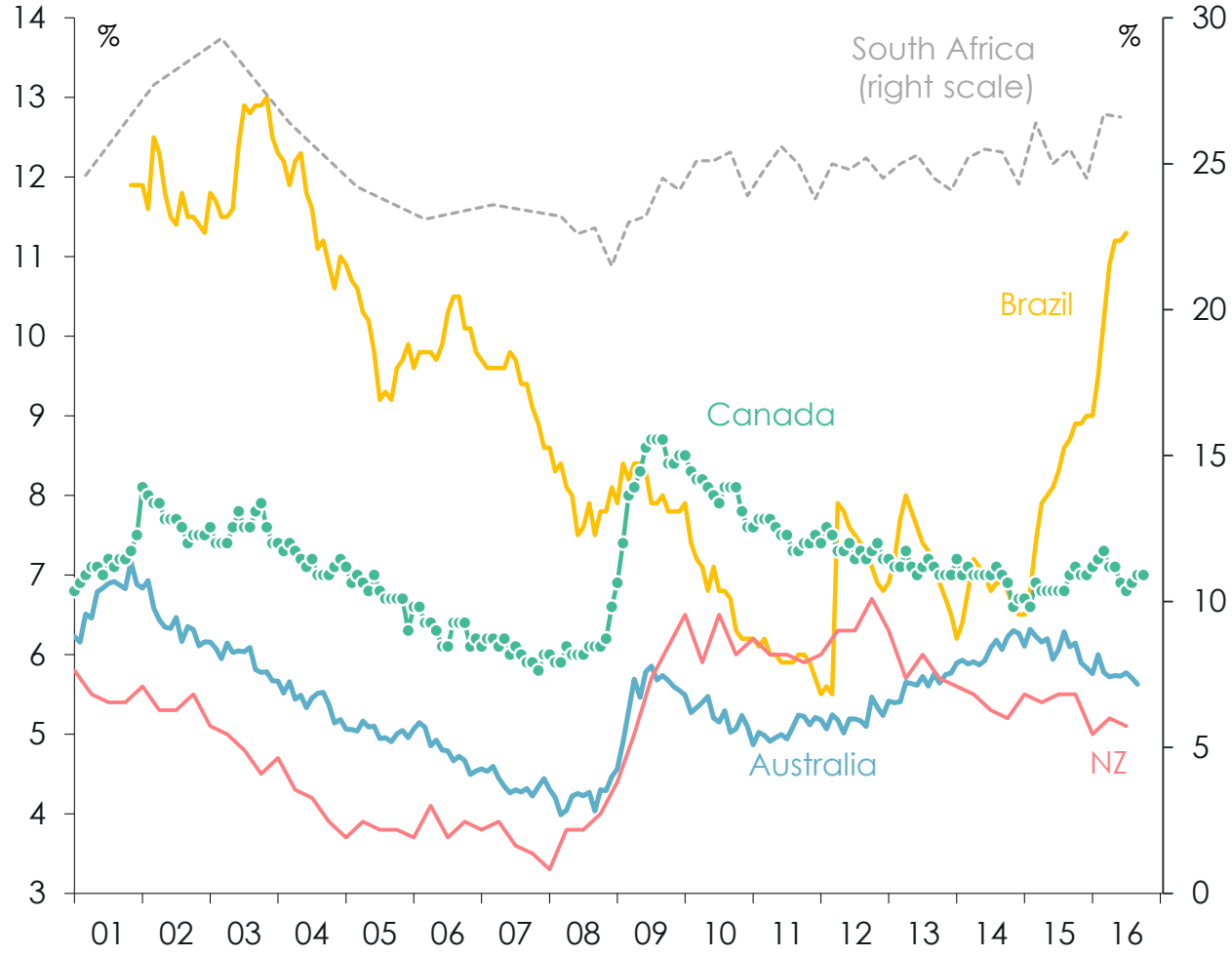
Note: The number of overseas student enrolments shown in the second chart exceeds the number of overseas students in Australia, since some students are enrolled in more than one category (eg higher education and English language). Sources: ABS; Australian Department of Education and Training.

Australia is faring better than most other commodity-exporting economies despite experiencing a sharper fall in its terms of trade

Australia and other commodity exporters – real GDP growth



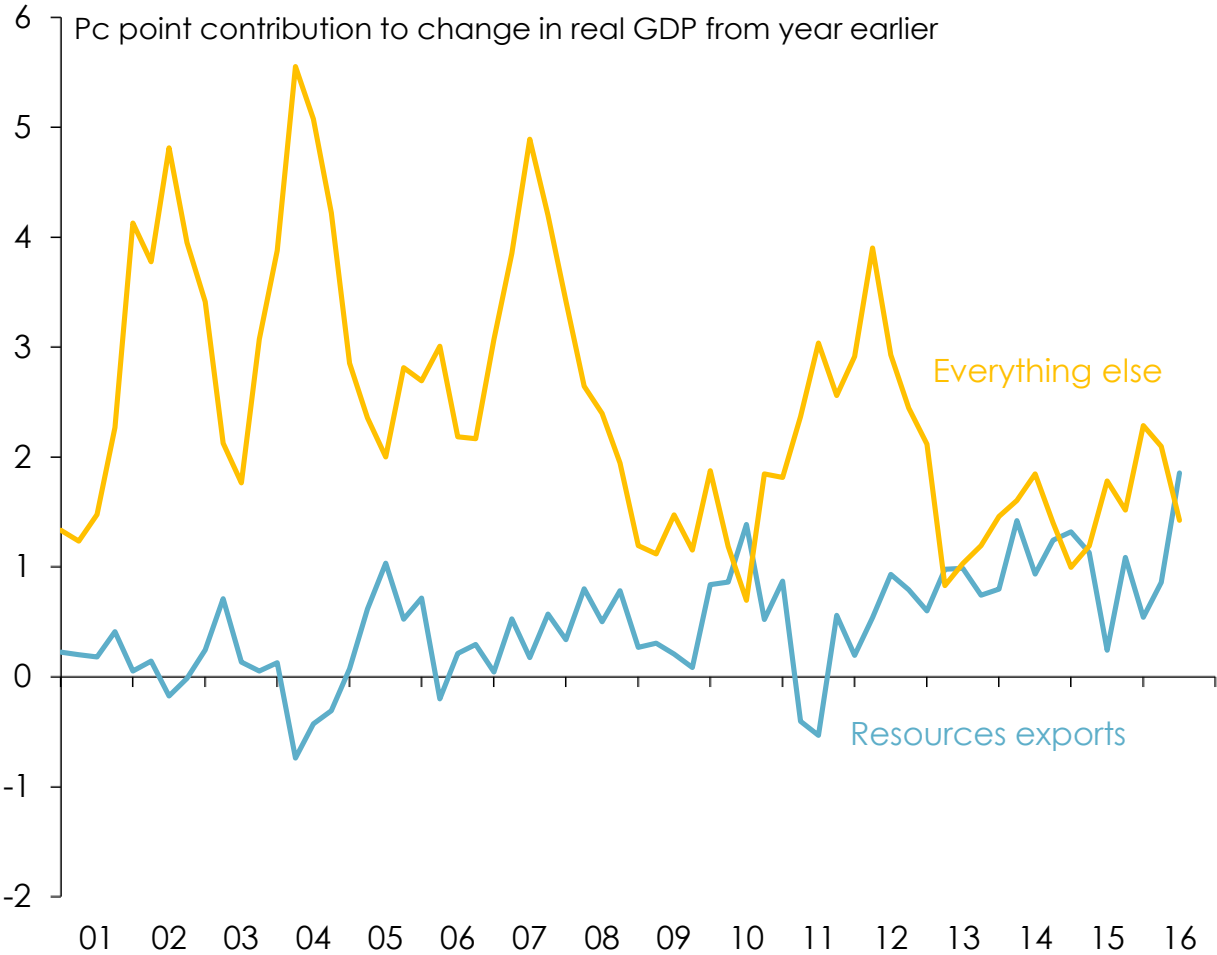
Australia and other commodity exporters - unemployment



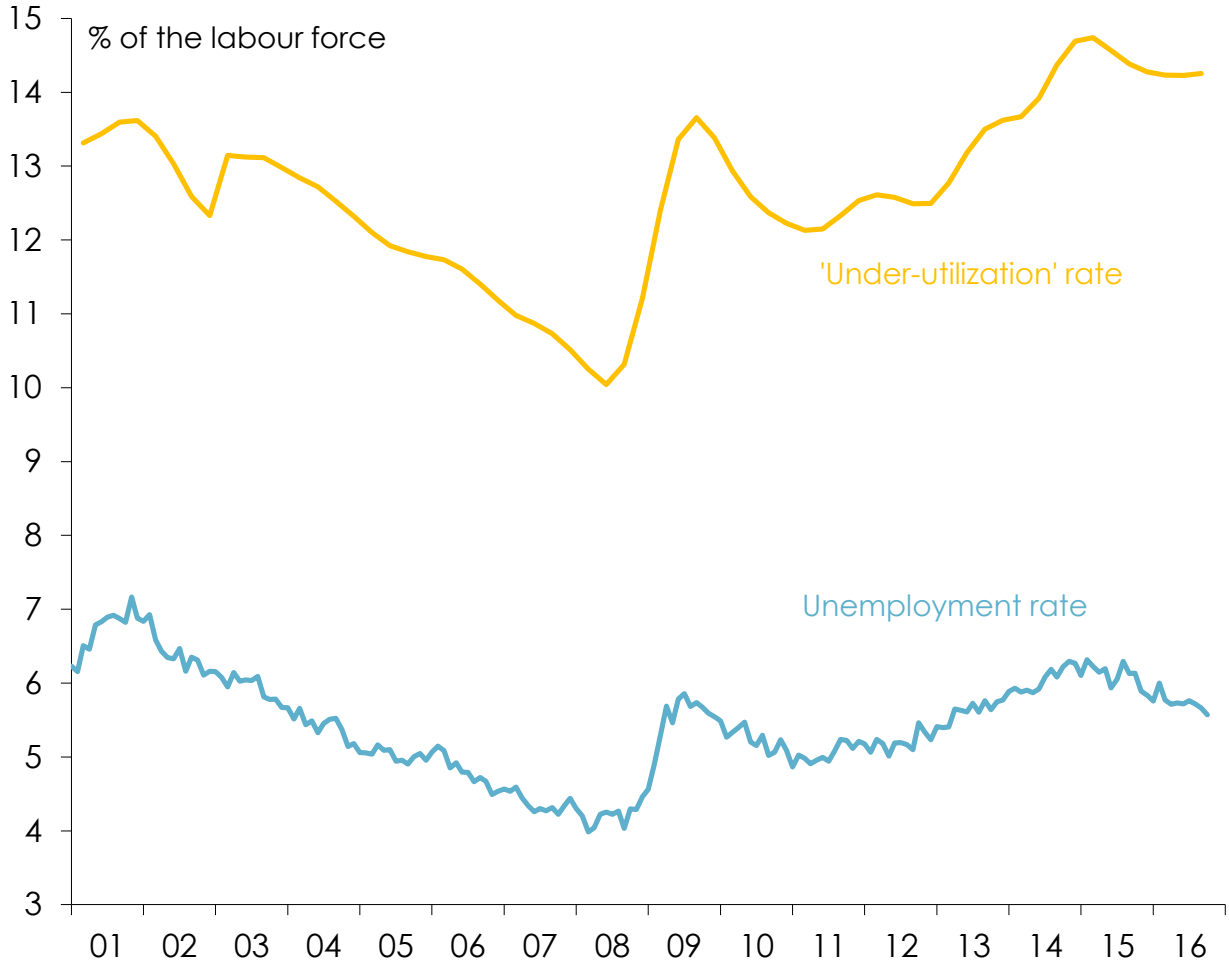
Sources: ABS; Statistics NZ; Statistics Canada; Instituto Brasileiro de Geografia e Estatistica; Statistics South Africa.

Nonetheless the Australian economy is still performing 'below par' in some important respects

Real GDP growth – resources exports vs the rest



Unemployment and 'under-utilization'



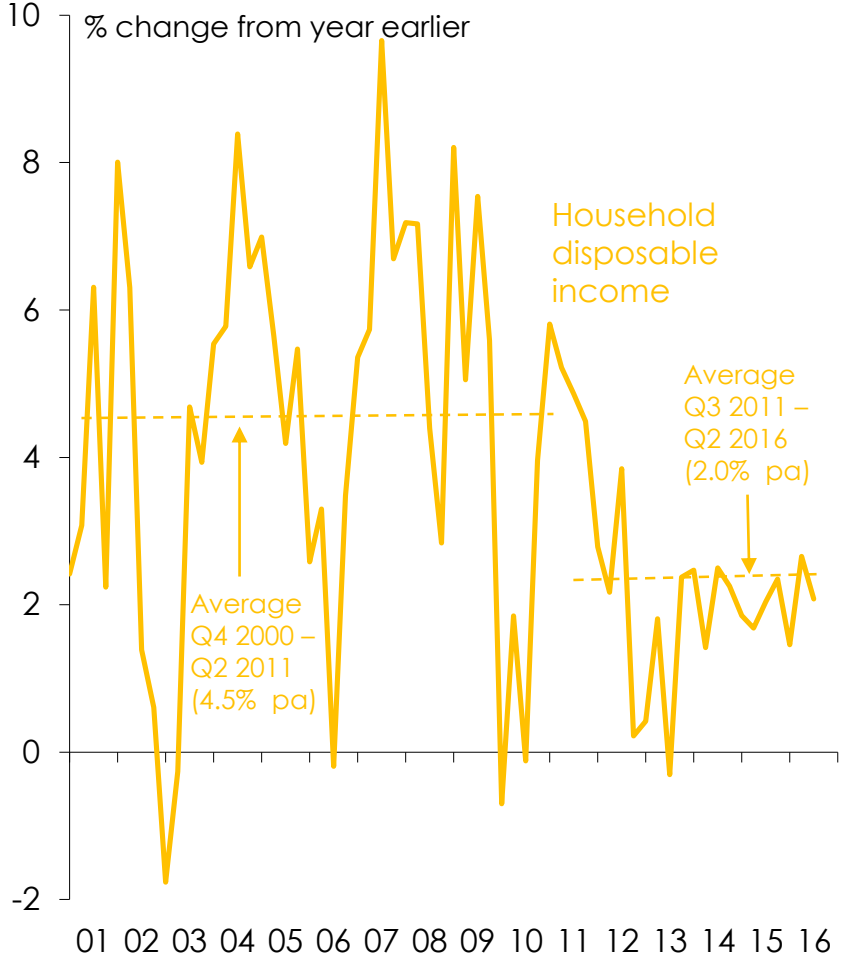
Note: The 'under-utilization' rate is the sum of those unemployed (as per the conventional definition) and those in part-time employment who want and are available to work more hours than they actually did in the labour force survey reference week, expressed as a percentage of the labour force.
Source: ABS.

Weak income growth is weighing on consumer confidence and spending

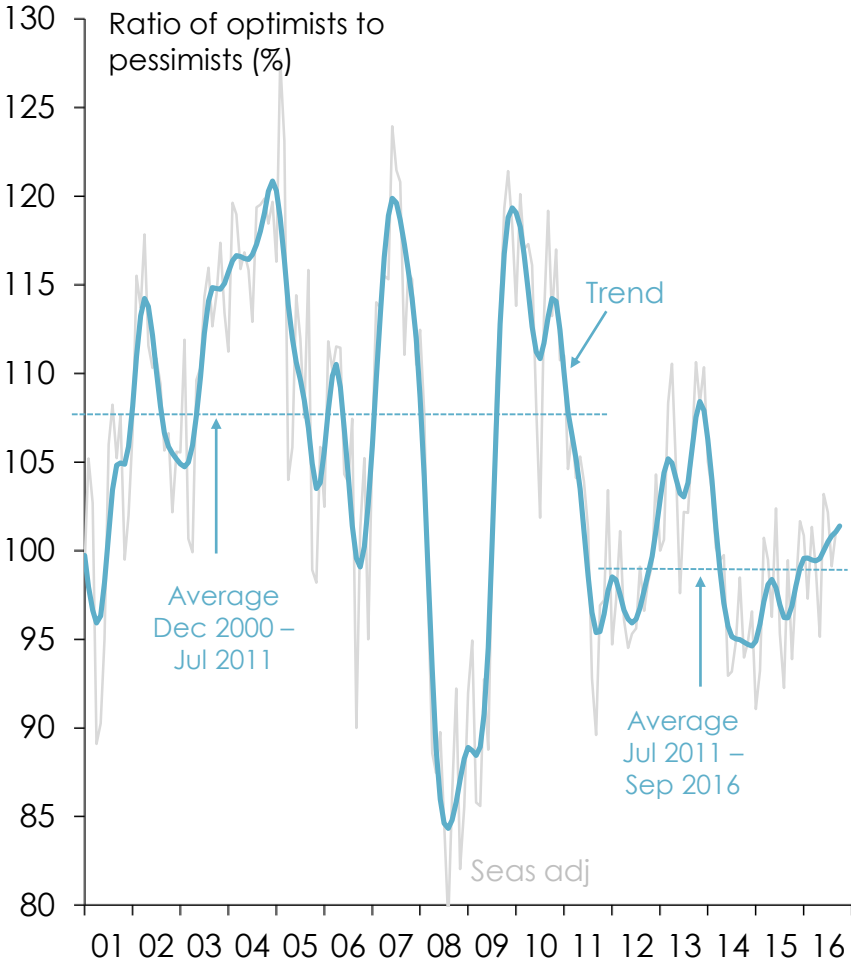
Labour income



Real household disposable income



Consumer confidence



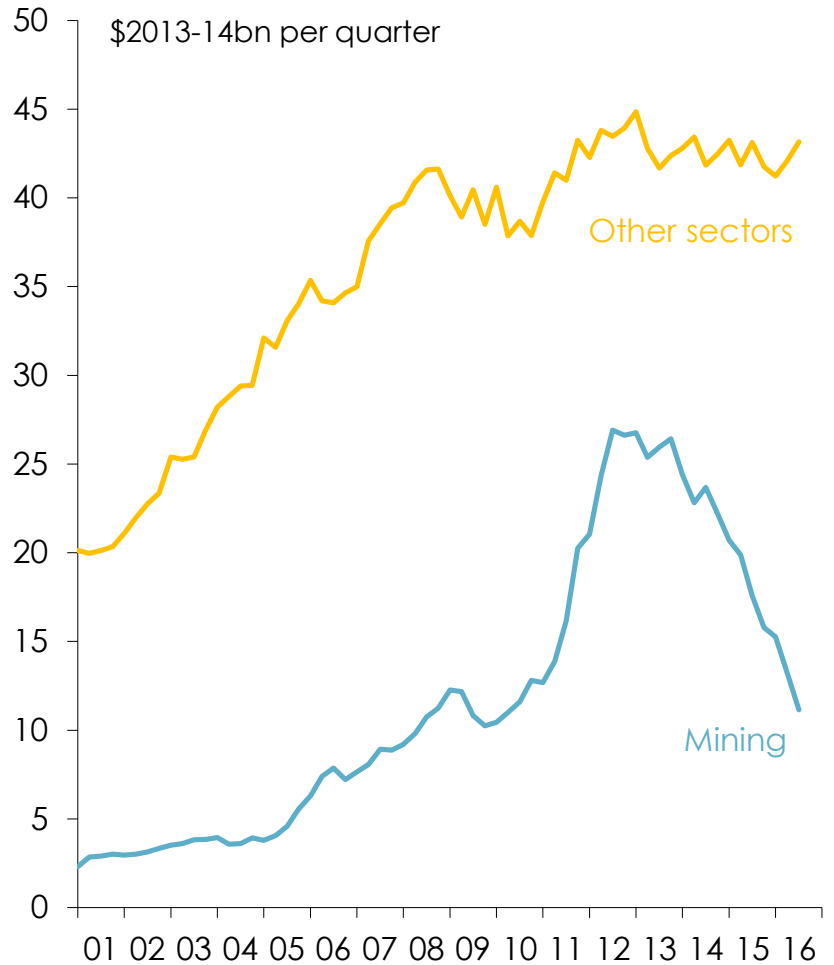
Sources: ABS; Westpac-Melbourne Institute.

Weak profits growth together with economic and political uncertainty are weighing on business confidence and business investment

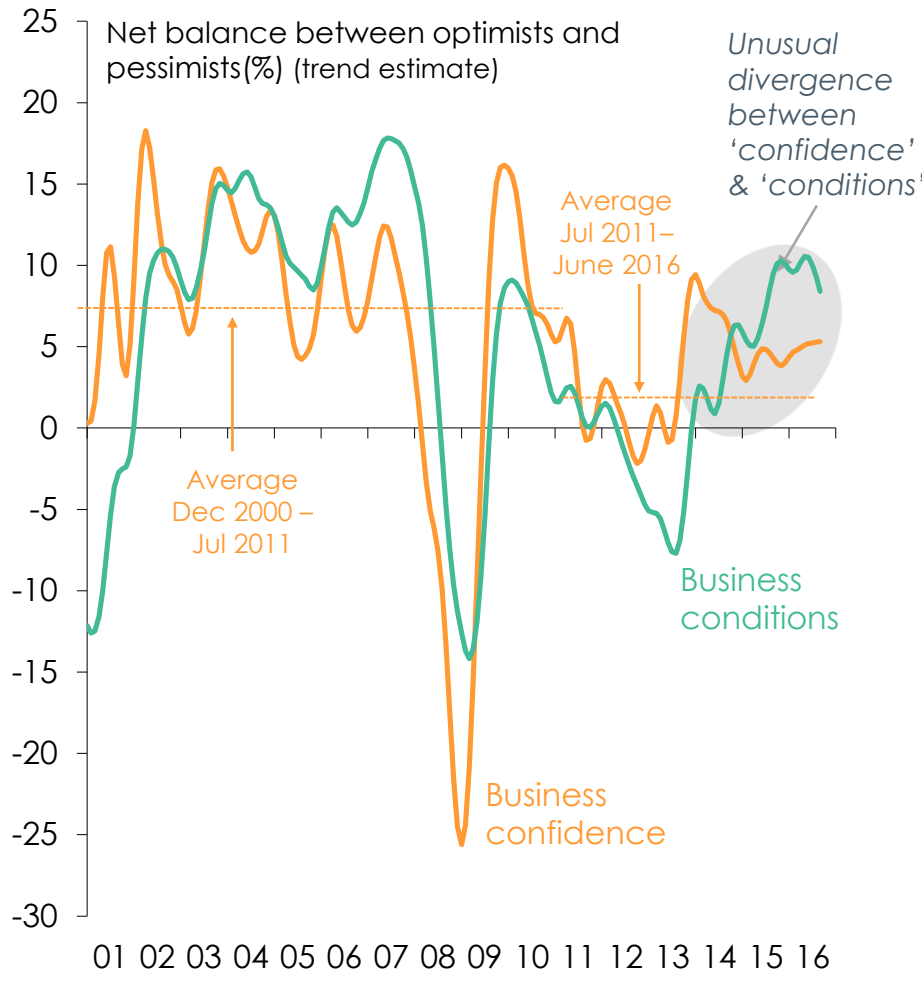
Pre-tax company profits



Business investment



Business conditions and confidence



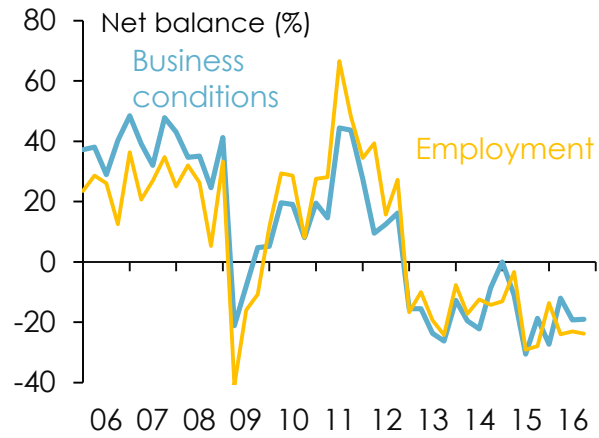
Note: 'Other sectors' in the company profits survey exclude banks and other deposit-taking intermediaries, insurance and super funds, education & training, and health care & social assistance. Mining investment includes buildings & structures and plant, equipment & machinery from the capex survey plus exploration expenditure; investment by 'other sectors' is the national accounts measure of total new business investment minus this estimate of mining investment.

Sources: ABS; National Australia Bank [Monthly Business Survey](#).

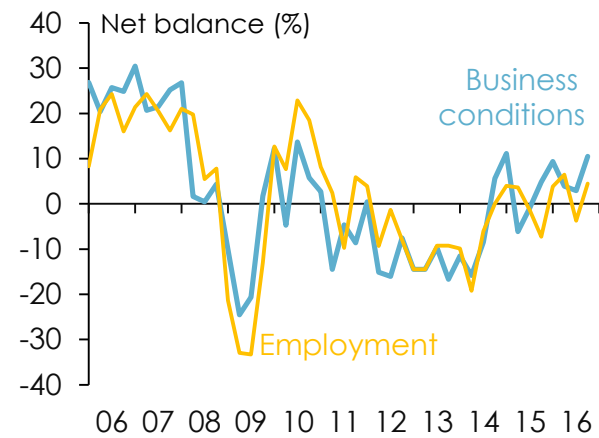
Sectors involved in the production and distribution of goods are generally struggling while services sectors are doing reasonably well

NAB Quarterly Business Survey conditions and employment, by major industry

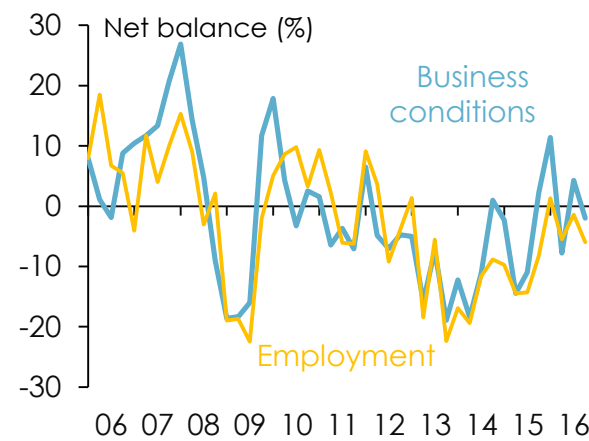
Mining



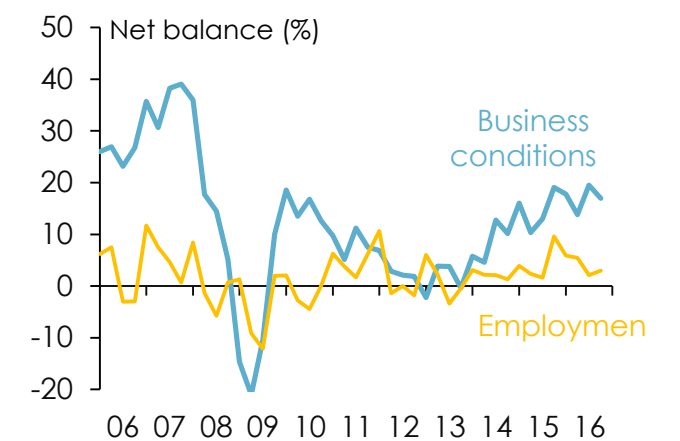
Construction



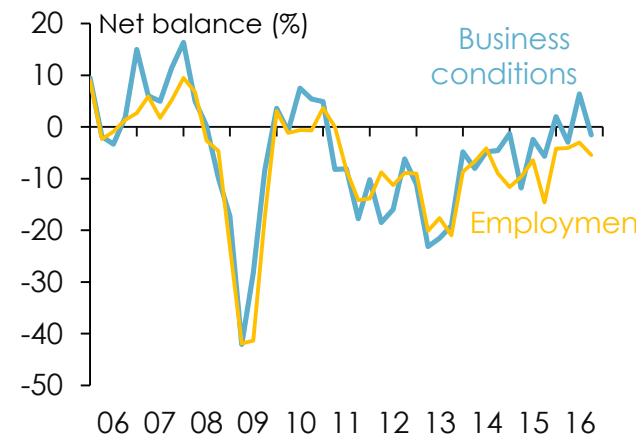
Wholesale trade



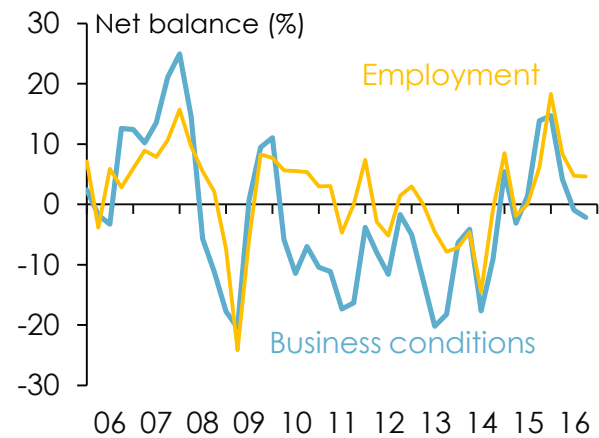
Finance



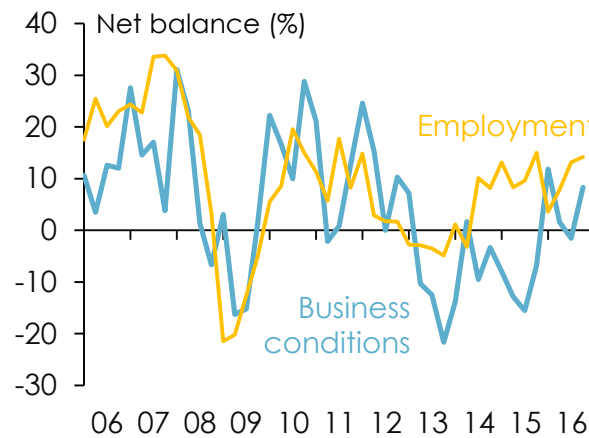
Manufacturing



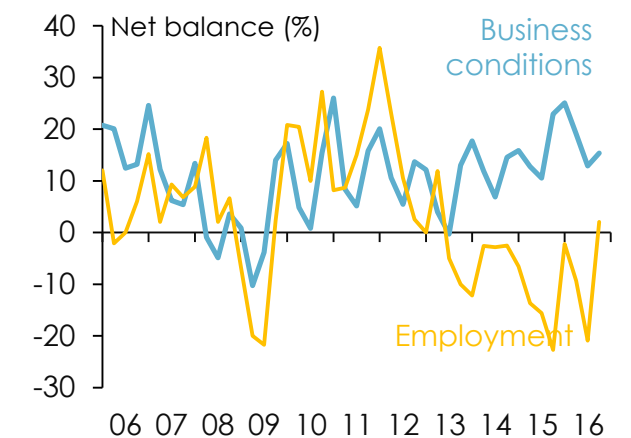
Transport



Retail trade



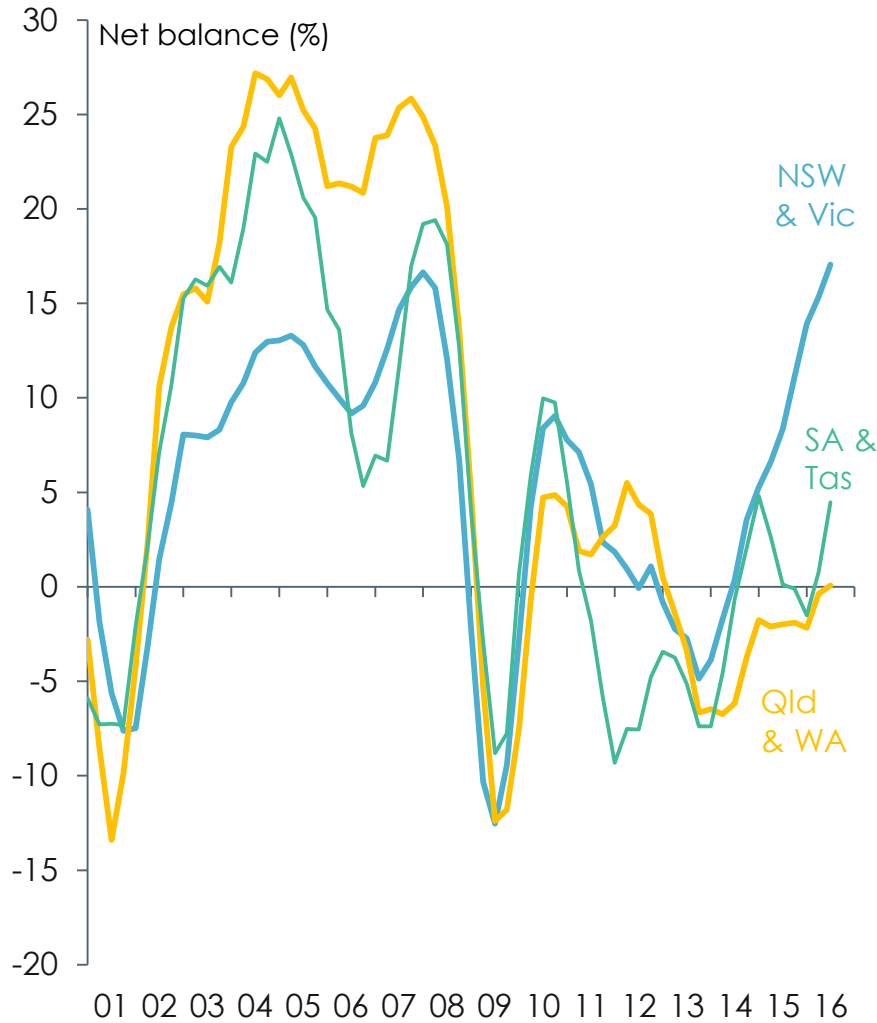
Recreation



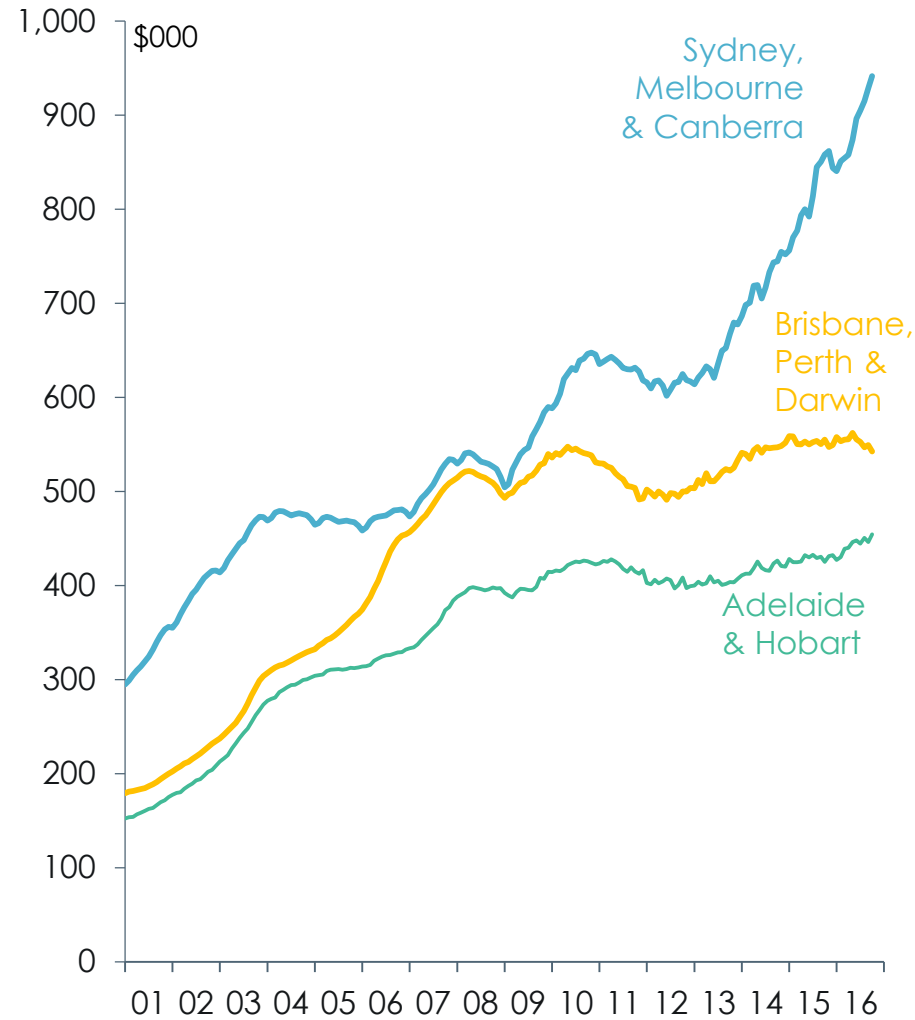
Source: National Australia Bank Quarterly Business Survey.

Growth leadership has passed from the 'resources States' to the major south-eastern States

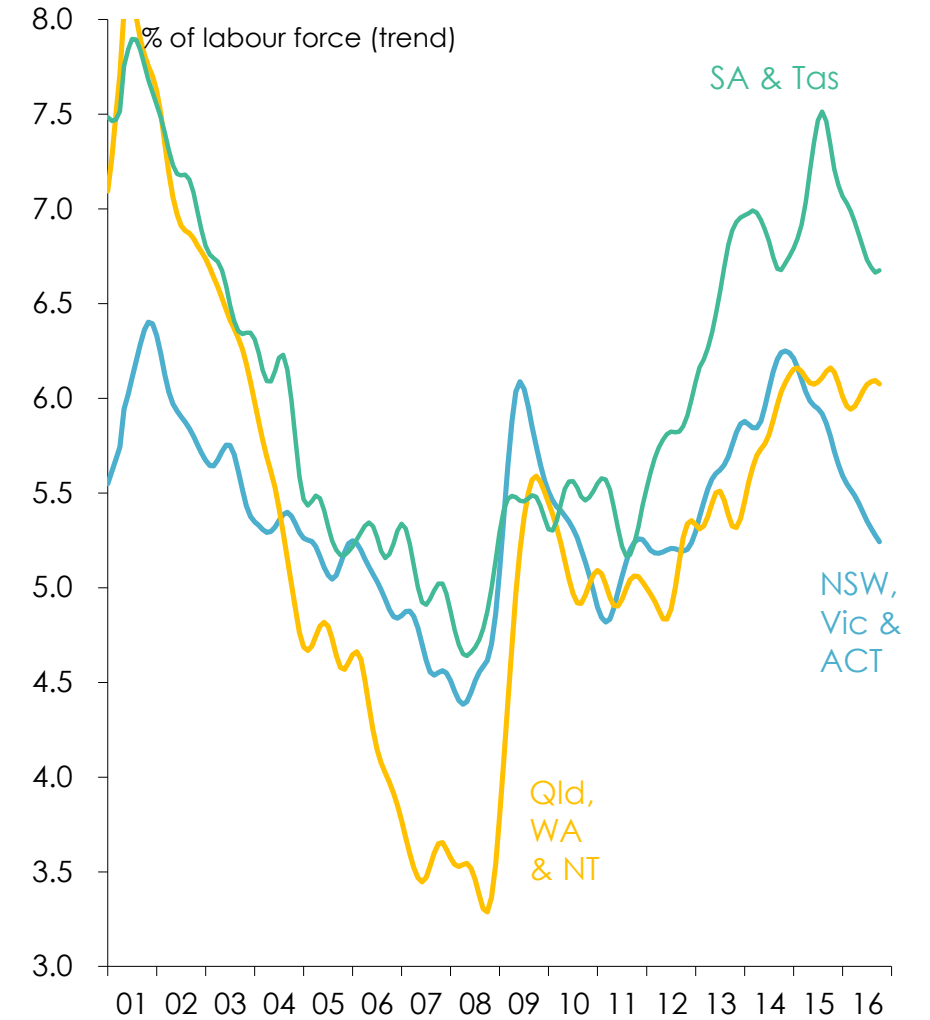
Business conditions



Residential property prices



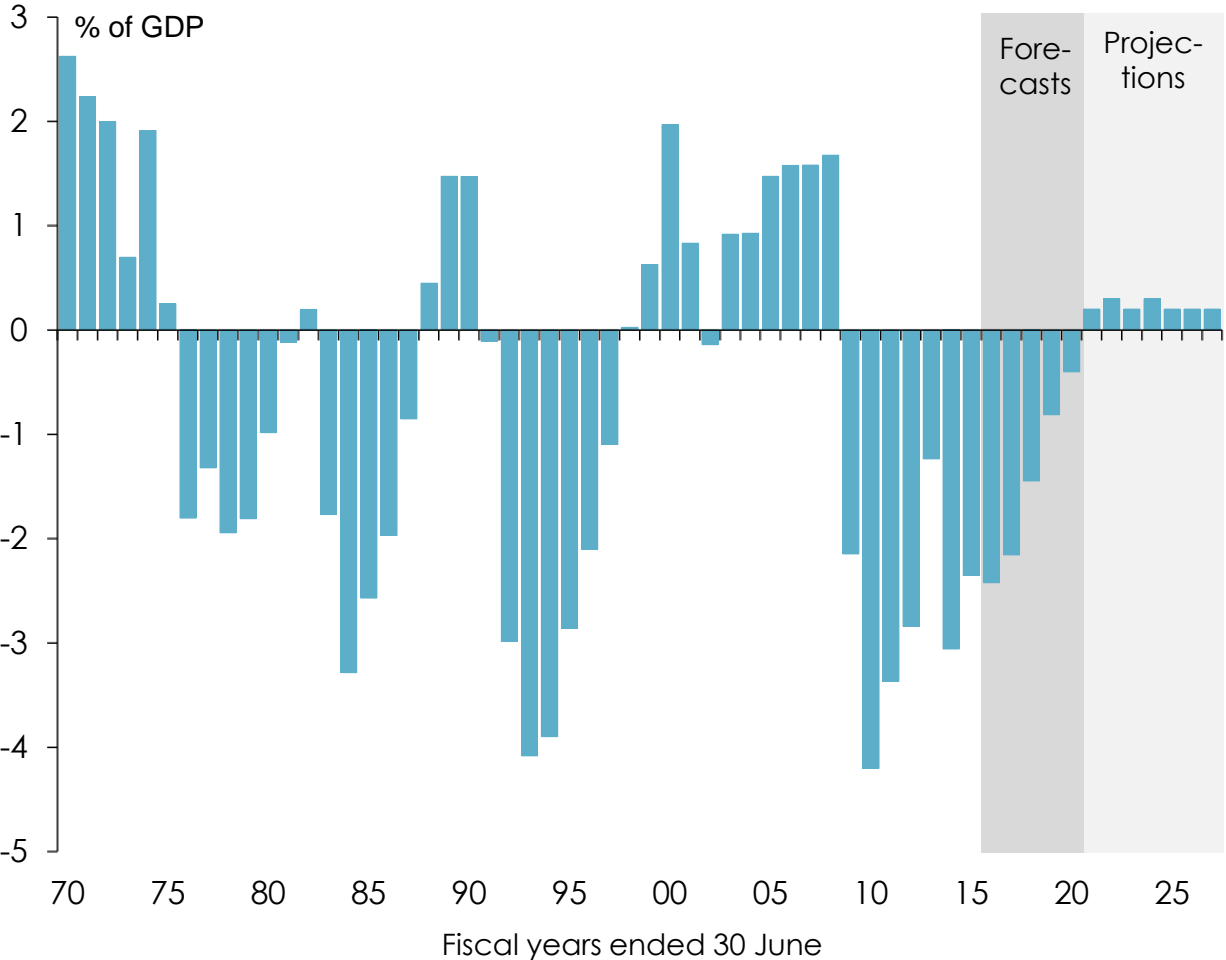
Unemployment rate



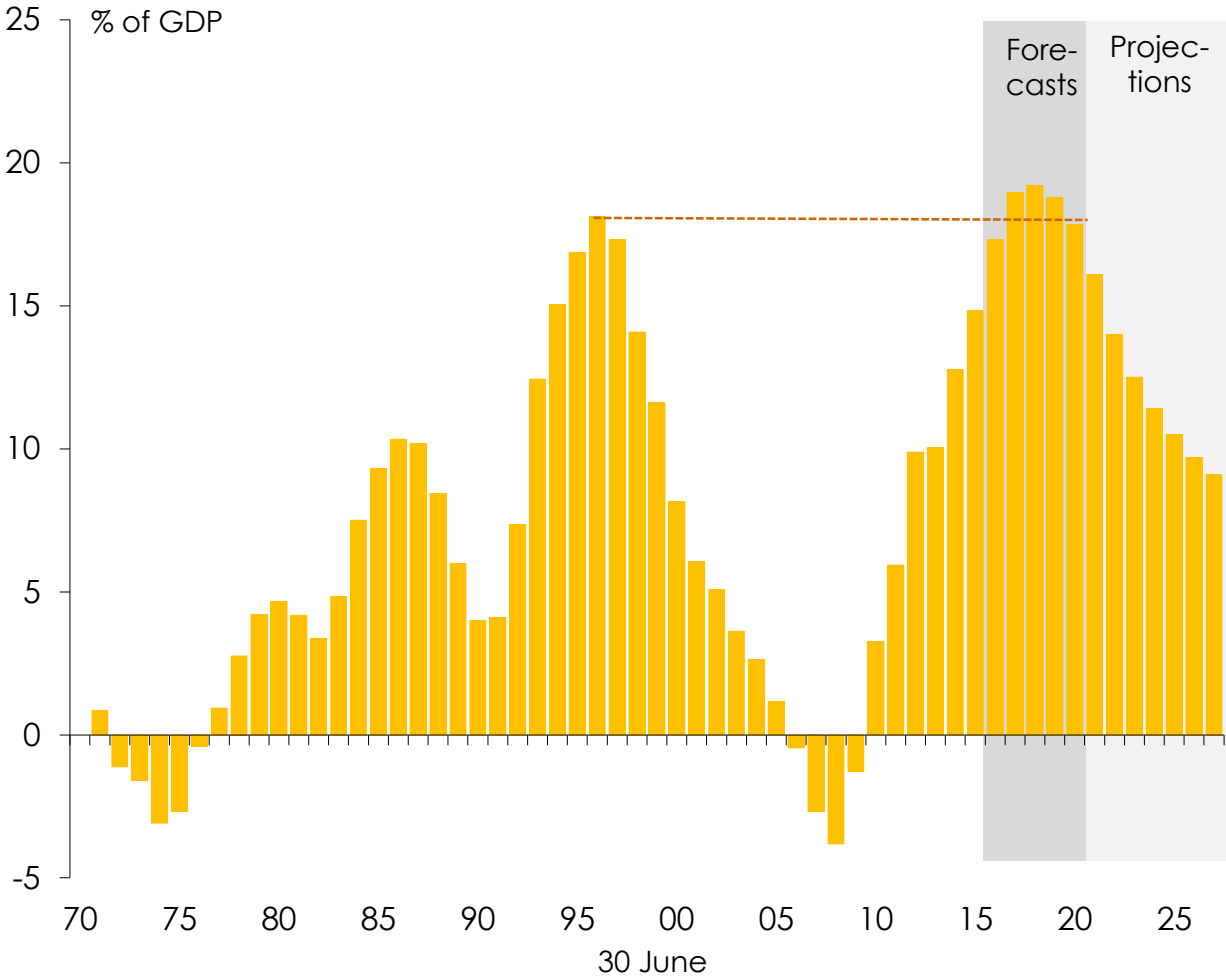
Note: Business conditions and capital city property prices are weighted by State or Territory shares of GDP.
Sources: National Australia Bank; CoreLogic – RP Data; ABS.

Australia still has some way to go in returning its public finances to a sound, sustainable position

Australian Government 'underlying' budget balance



Australian Government net debt

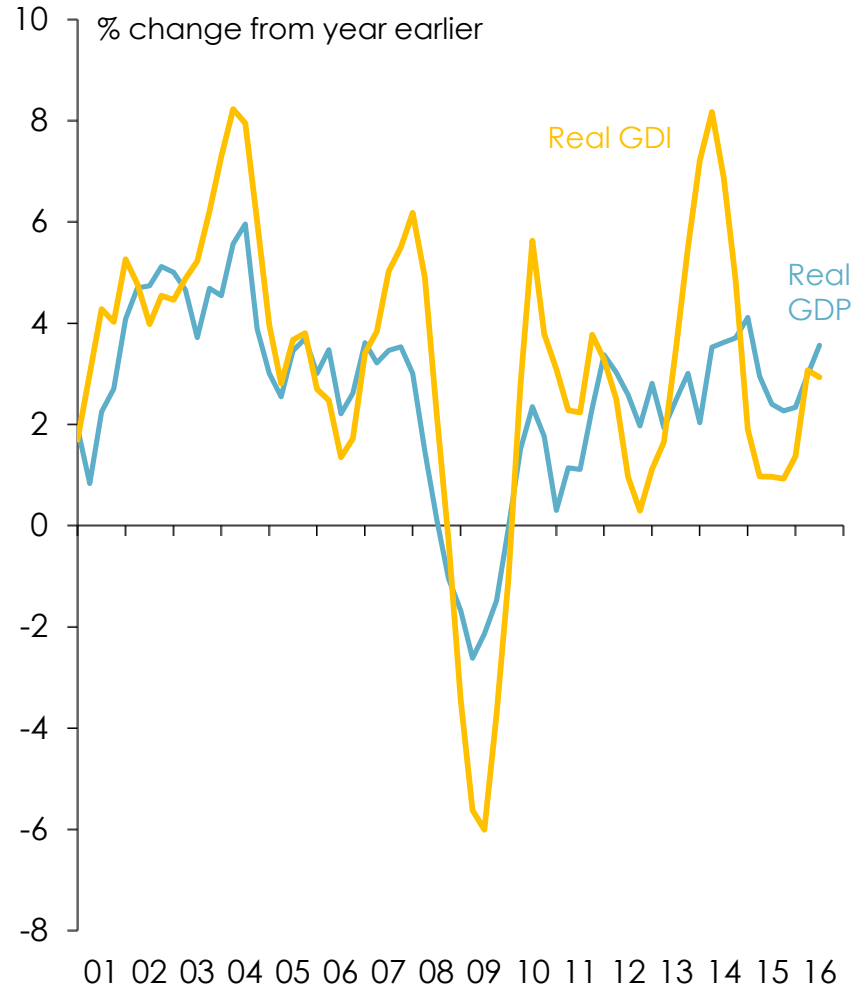


Source: Australian Government, [2016-17 Budget Paper No. 1](#), Statement No. 10.

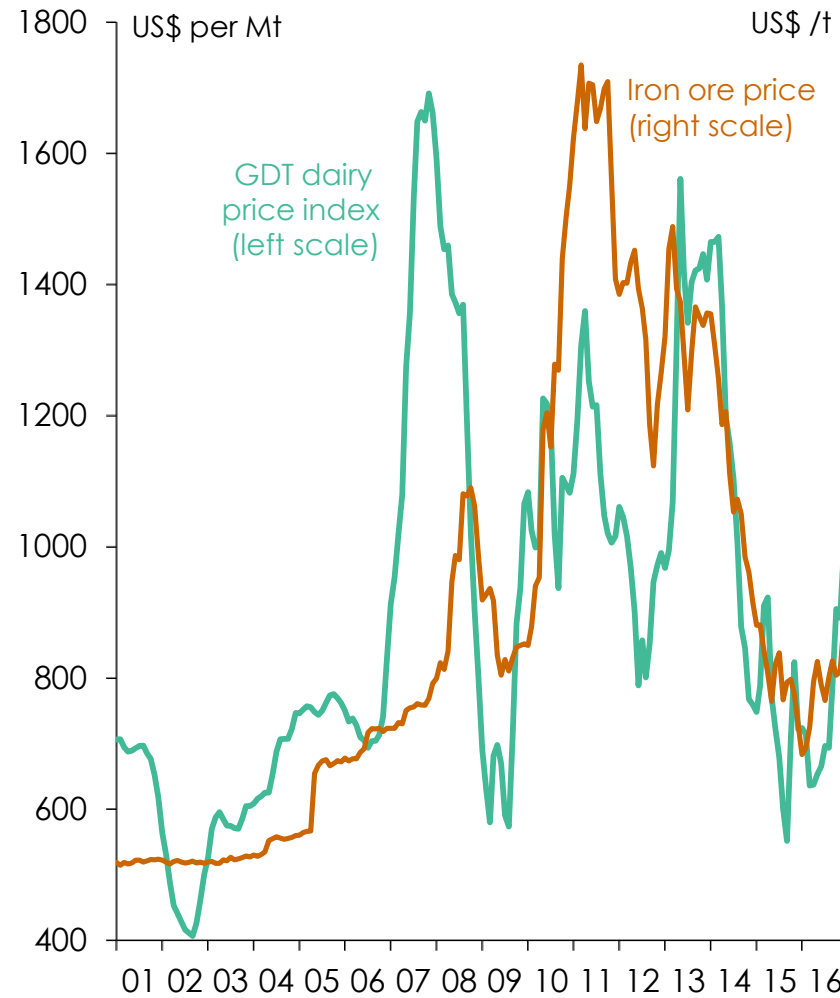
The New Zealand economy – recent past and present

New Zealand is fairly successfully weathering the aftermath of its commodity boom

New Zealand real gross domestic product and income



Dairy product vs iron ore prices



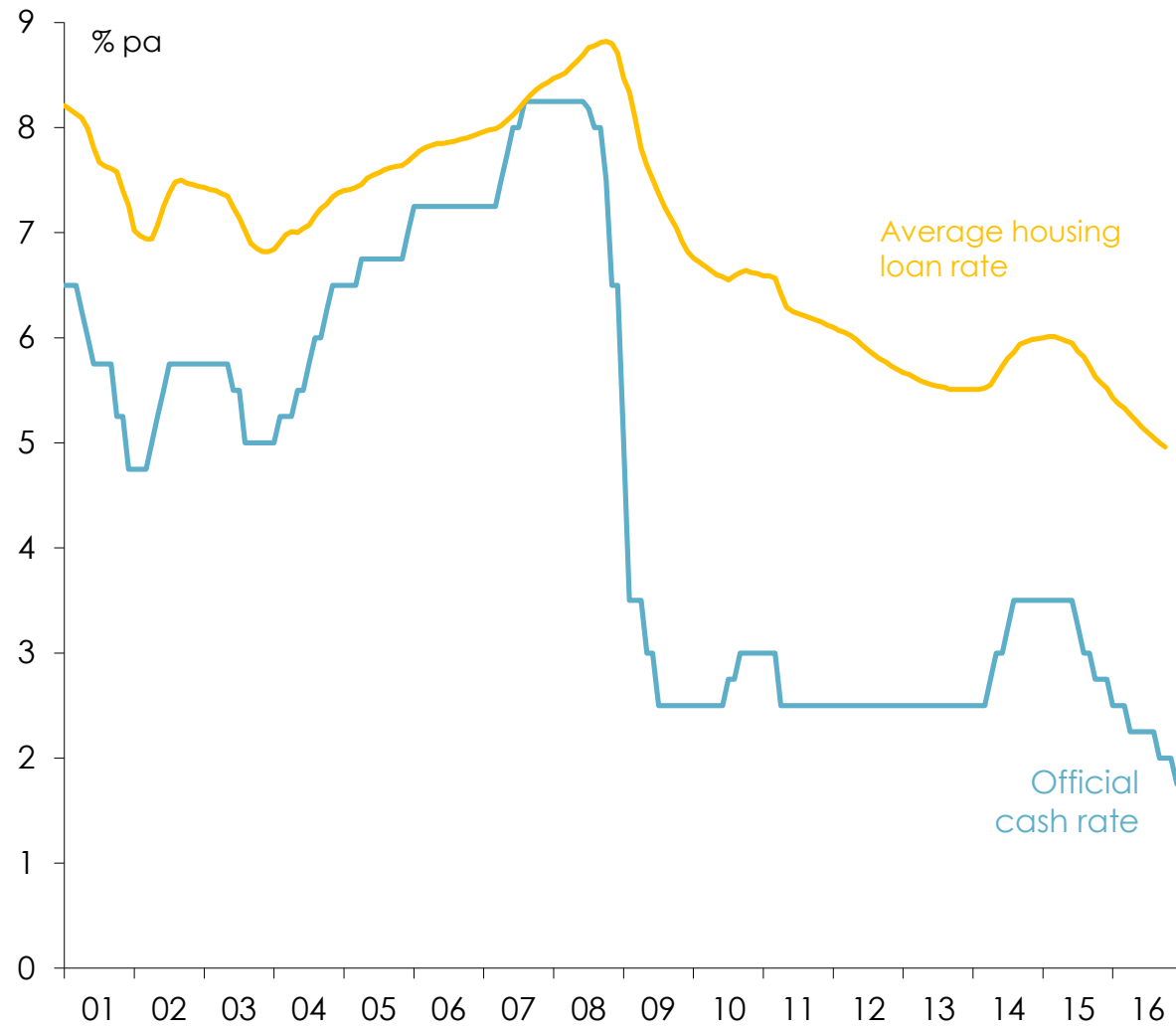
New Zealand unemployment rate



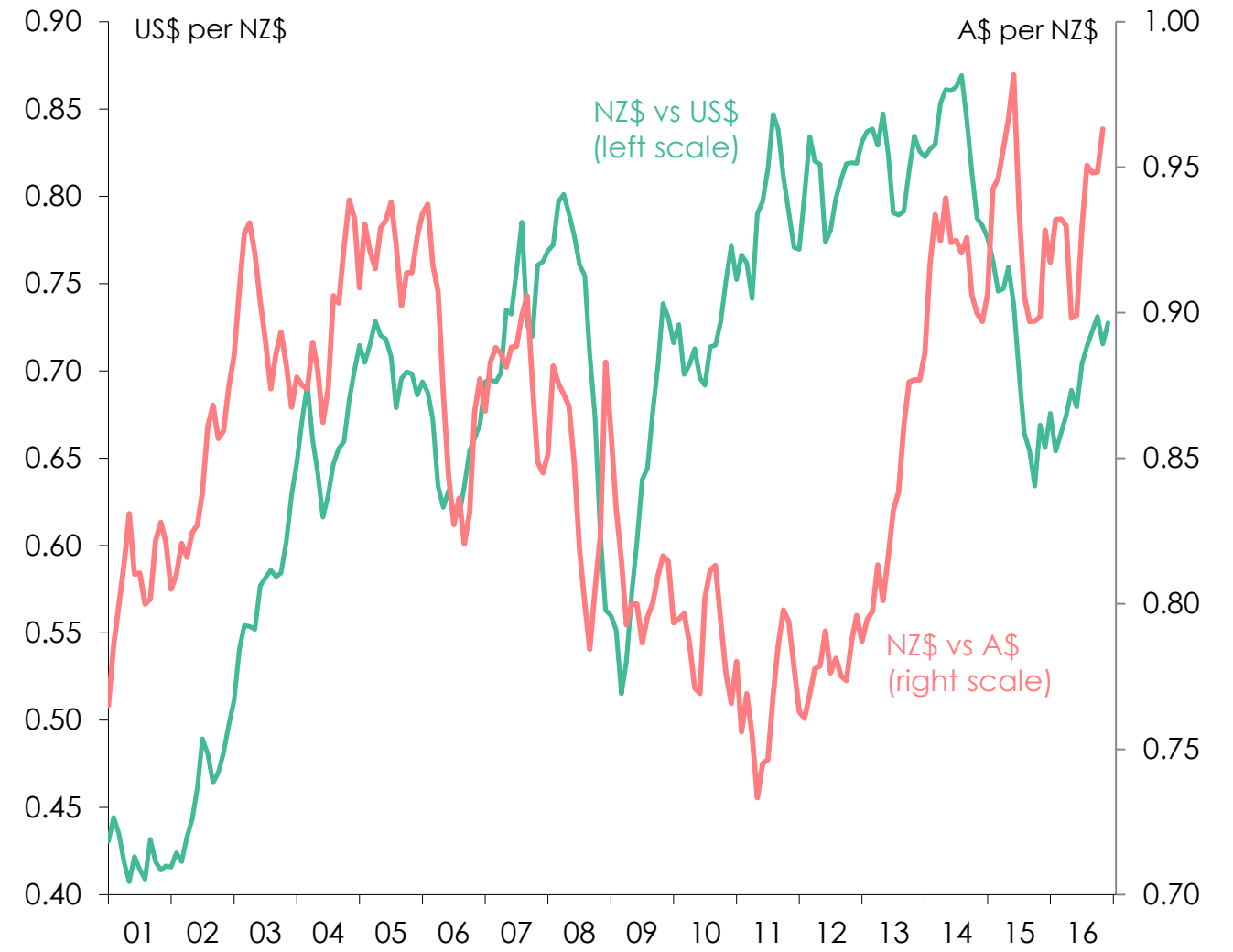
Note: Real gross domestic income (GDI) is real GDP plus net income gains (or losses) arising from changes in the terms of trade (the ratio of export to import prices).
Sources: Statistics NZ; Global Dairy Trade; Thomson Reuters Datastream.

New Zealand interest rates are also now at record lows – although the NZ has remained stubbornly strong

New Zealand interest rates



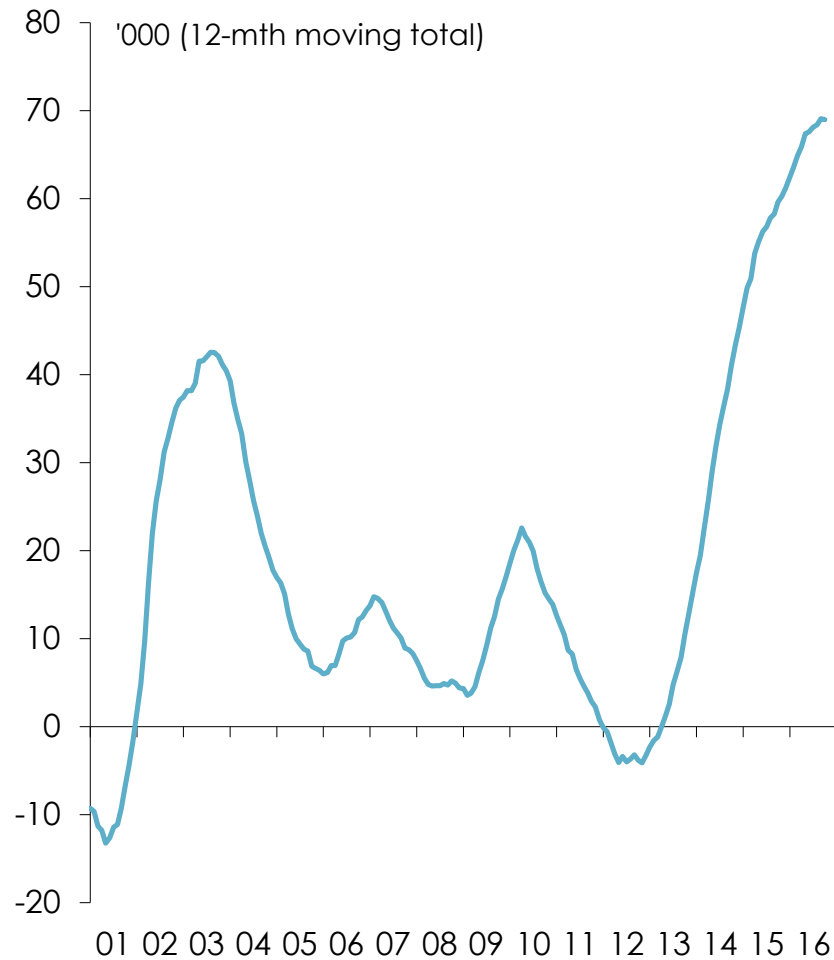
New Zealand dollar



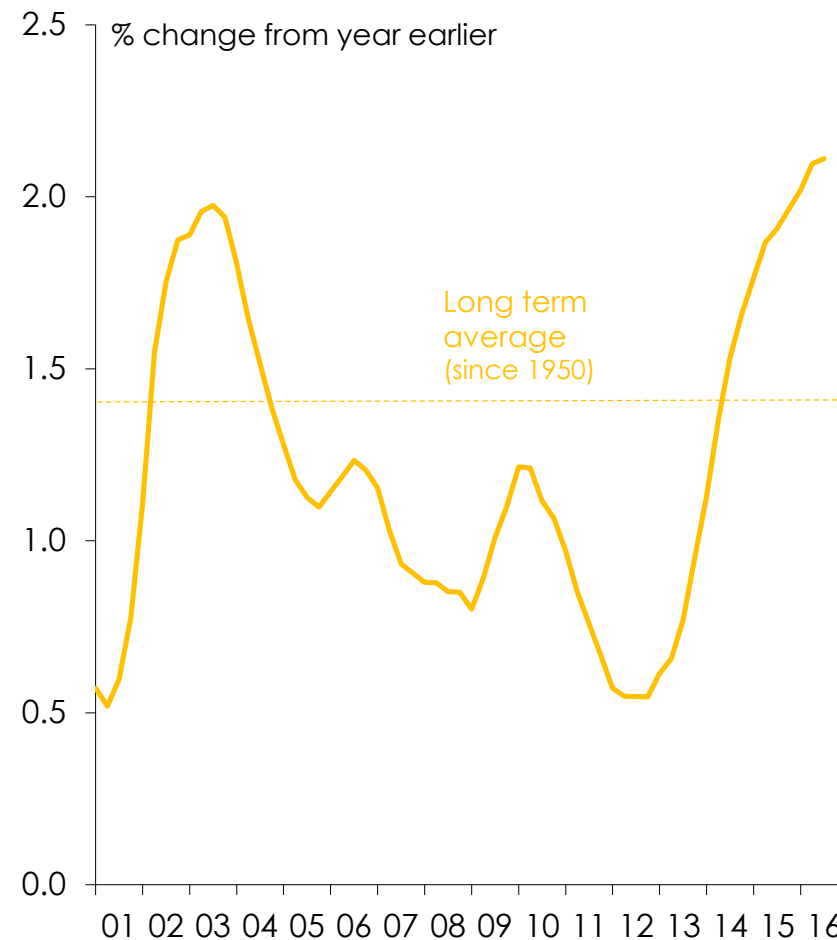
Source: Reserve Bank of New Zealand; Thomson Reuters Datastream.

New Zealand is also experiencing an almost unprecedented surge in immigration - and a tourism boom

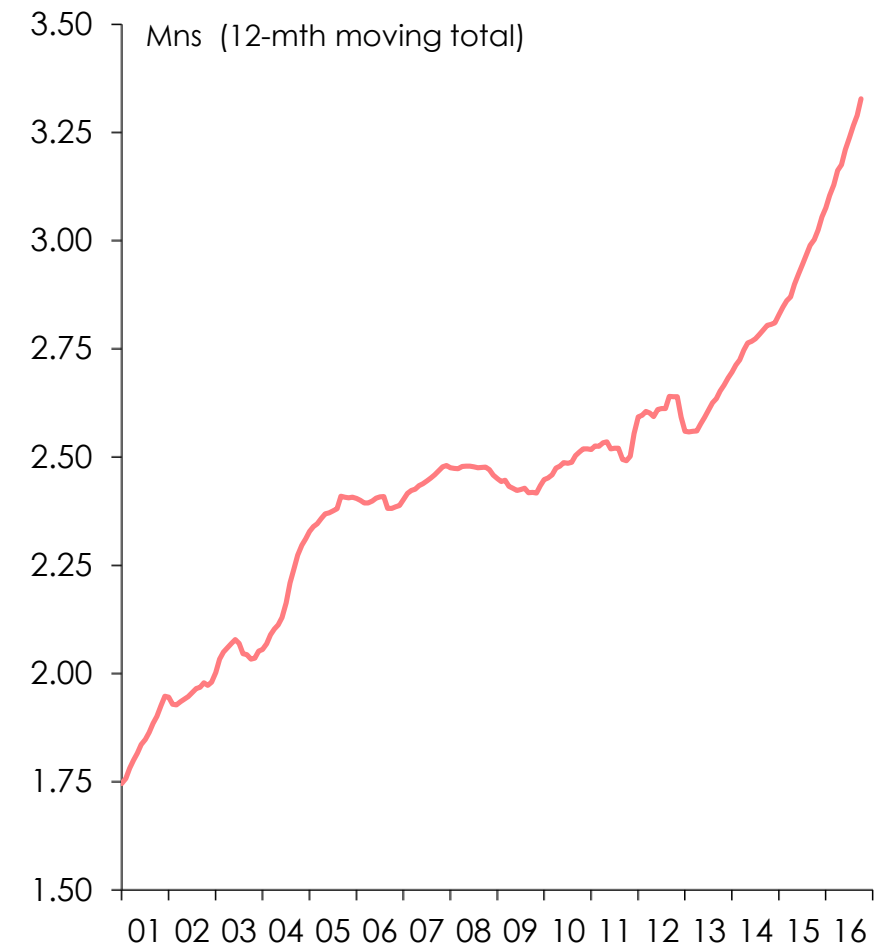
Net long-term and permanent immigration to New Zealand



New Zealand population growth



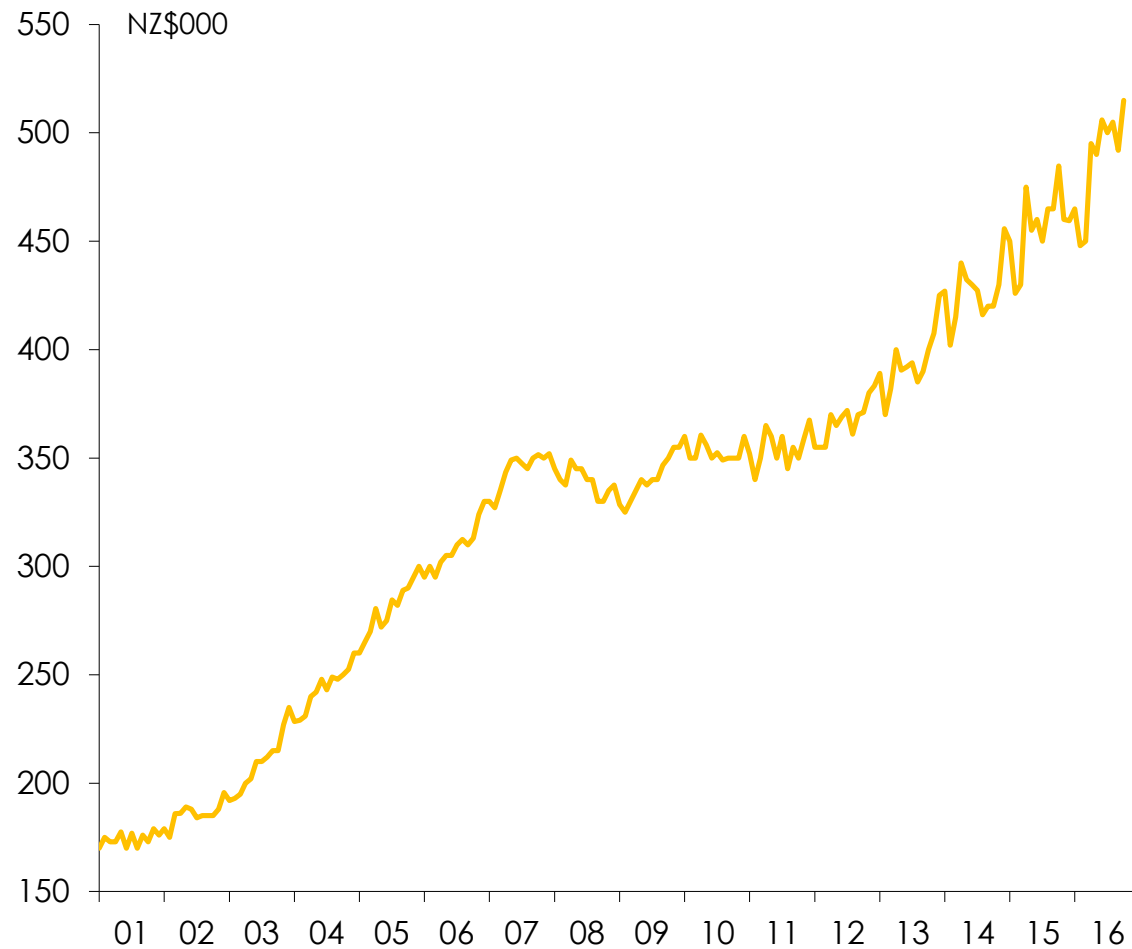
New Zealand short-term overseas visitor arrivals



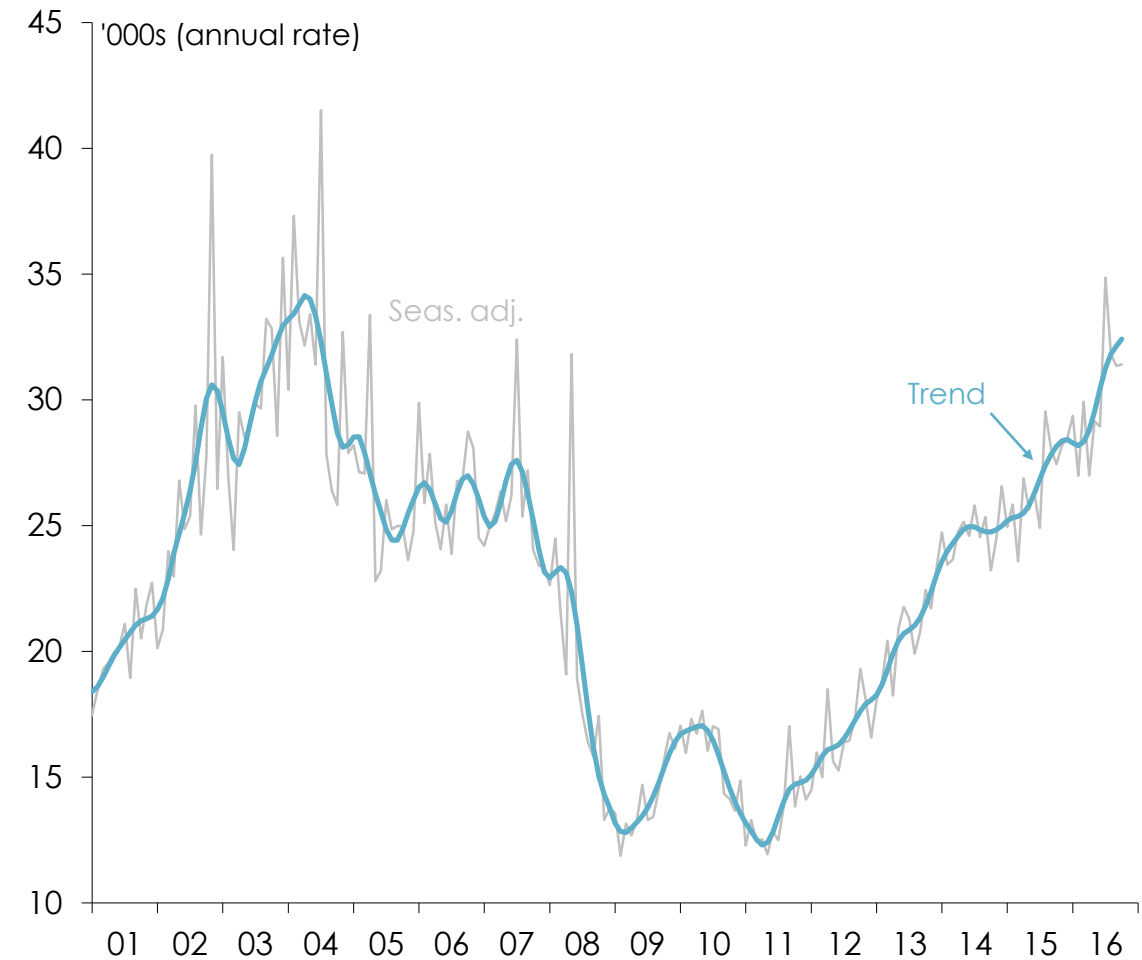
Source: Statistics NZ.

Not surprisingly New Zealand is also experiencing both a housing price and a housing construction boom (centred on Auckland)

Median house prices



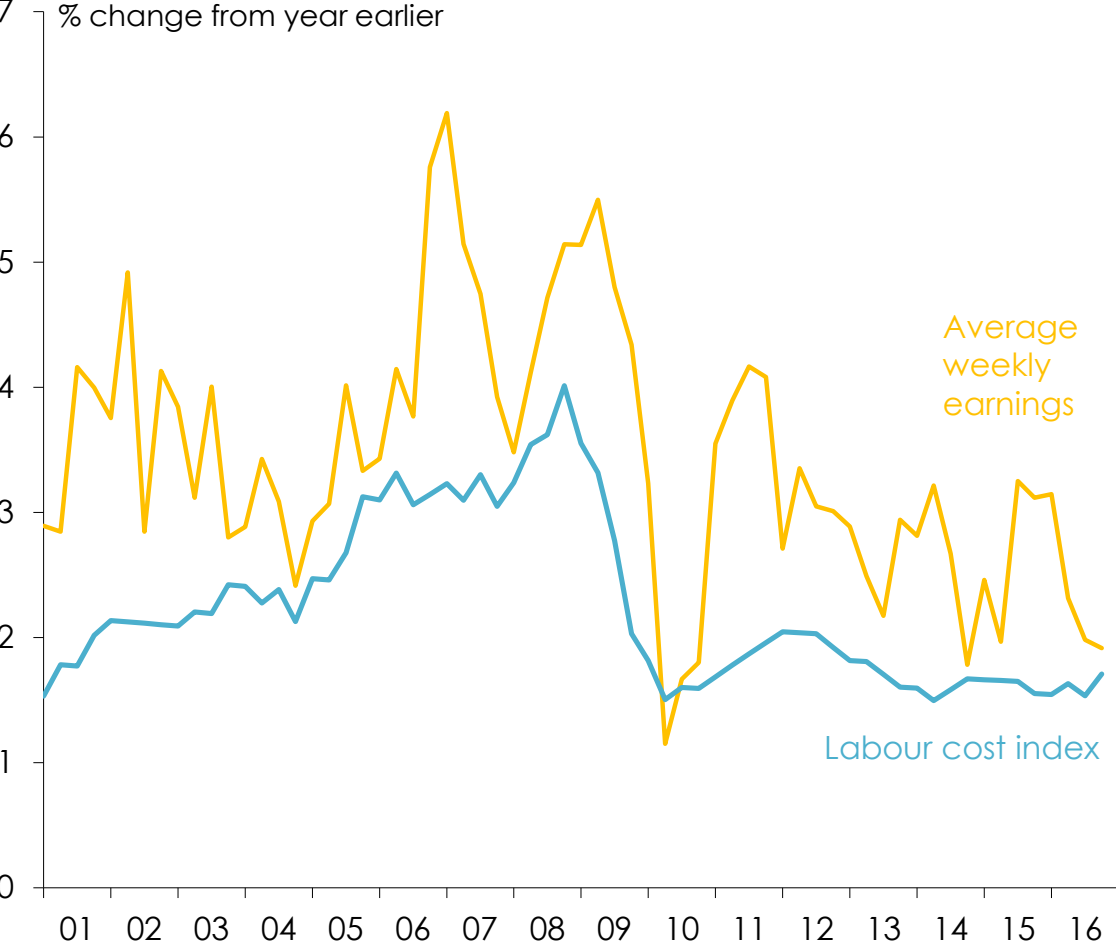
Dwelling consents (residential building approvals)



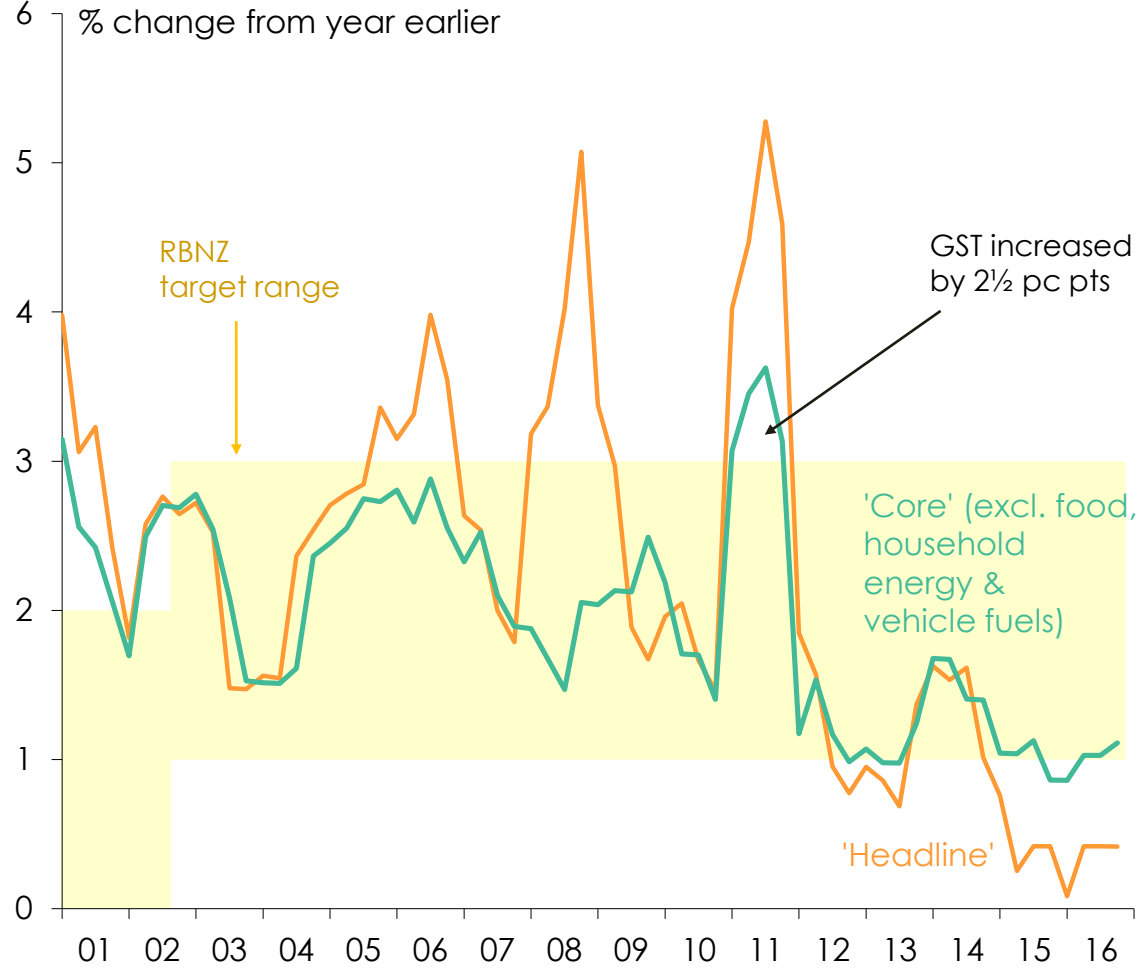
Sources: Real Estate Institute of New Zealand; Statistics New Zealand.

The persistently strong NZ\$ has resulted in persistently low inflation

Labour costs



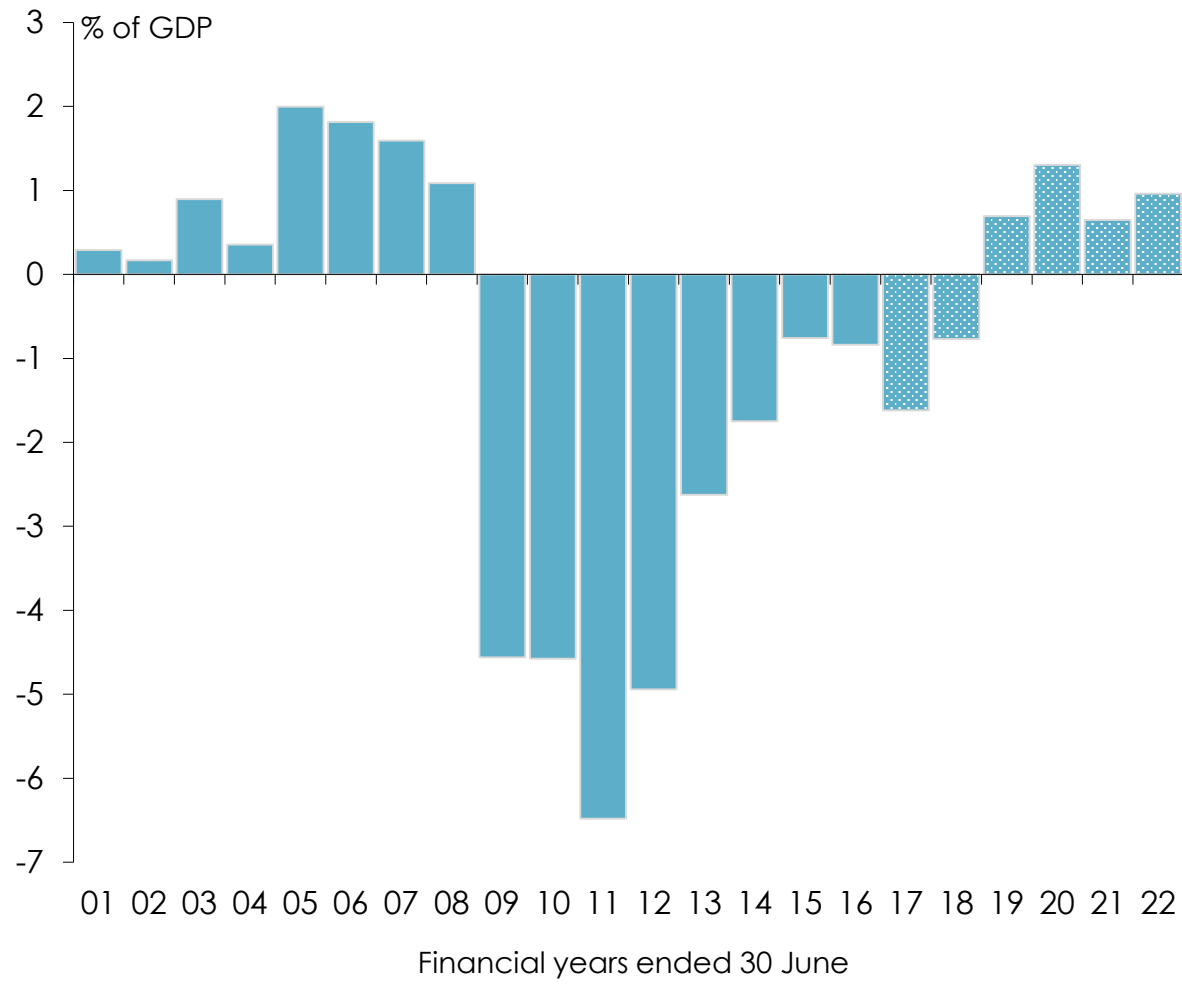
Consumer prices



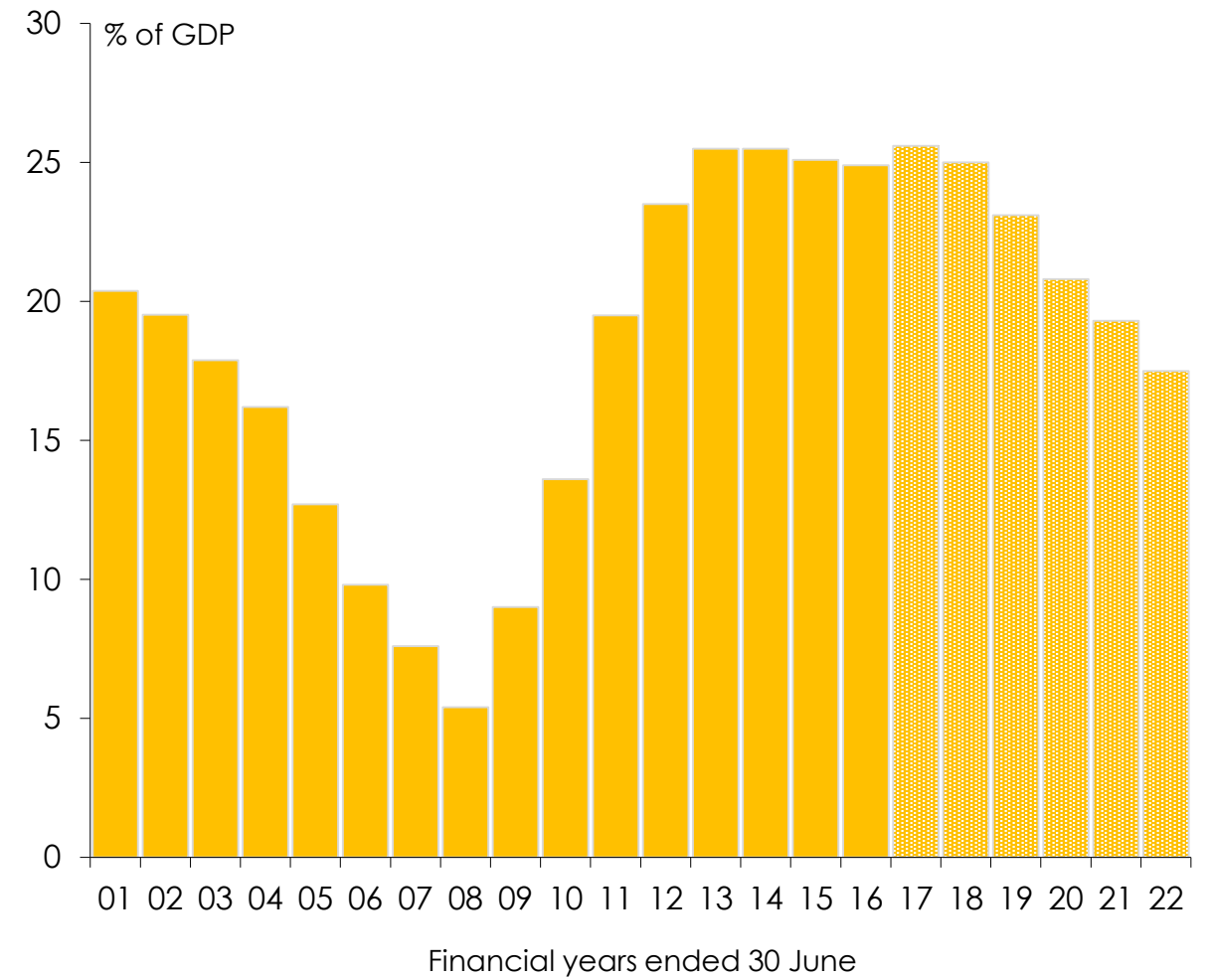
Sources: Statistics New Zealand; RBNZ.

New Zealand has made much more progress than Australia in the budget repair task

New Zealand Government 'residual cash balance'



New Zealand Government 'core Crown net debt'

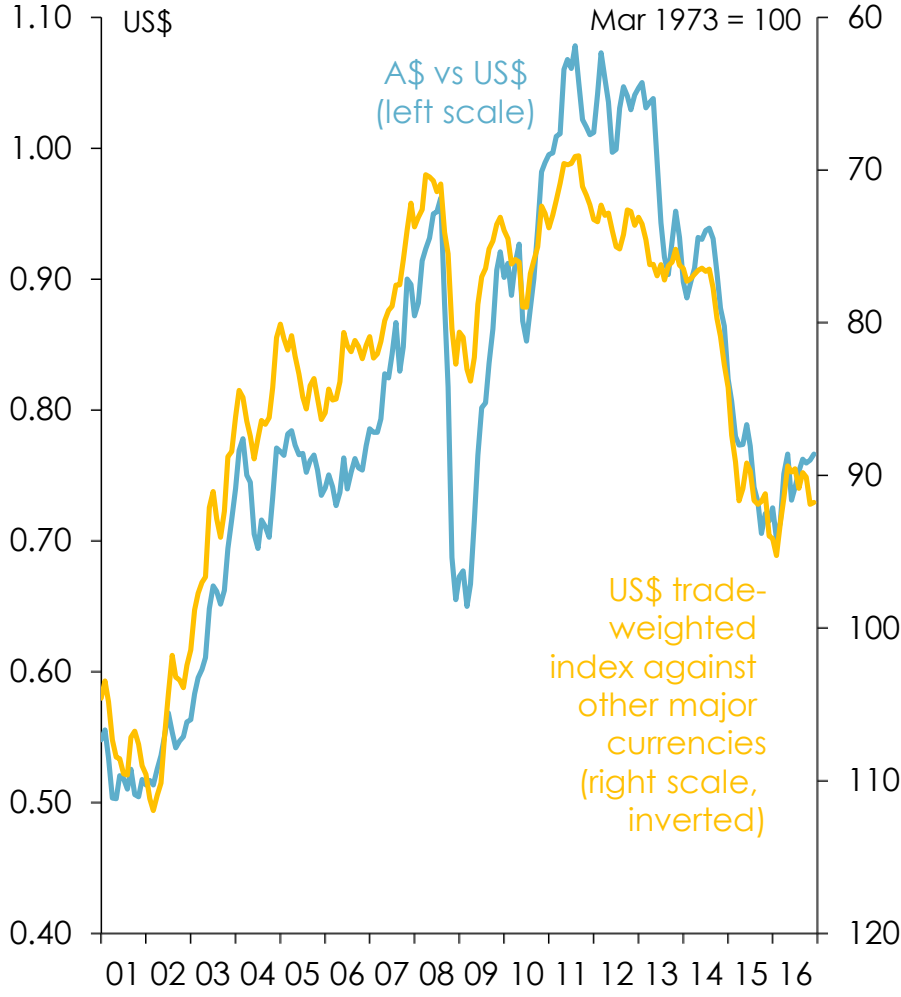


Source: New Zealand Treasury

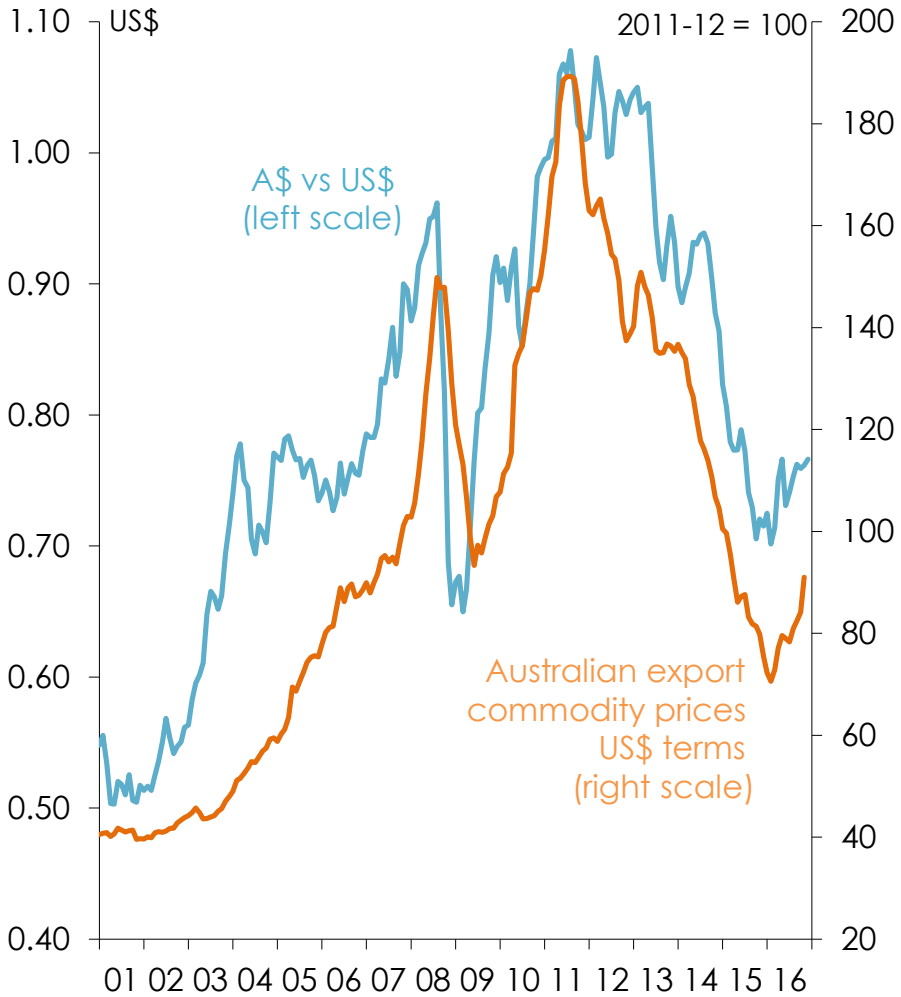
The Australian and New Zealand dollars

The A\$-US\$ rate is driven by fluctuations in the US\$ itself, commodity prices and (sometimes) Australia-US interest rate spreads

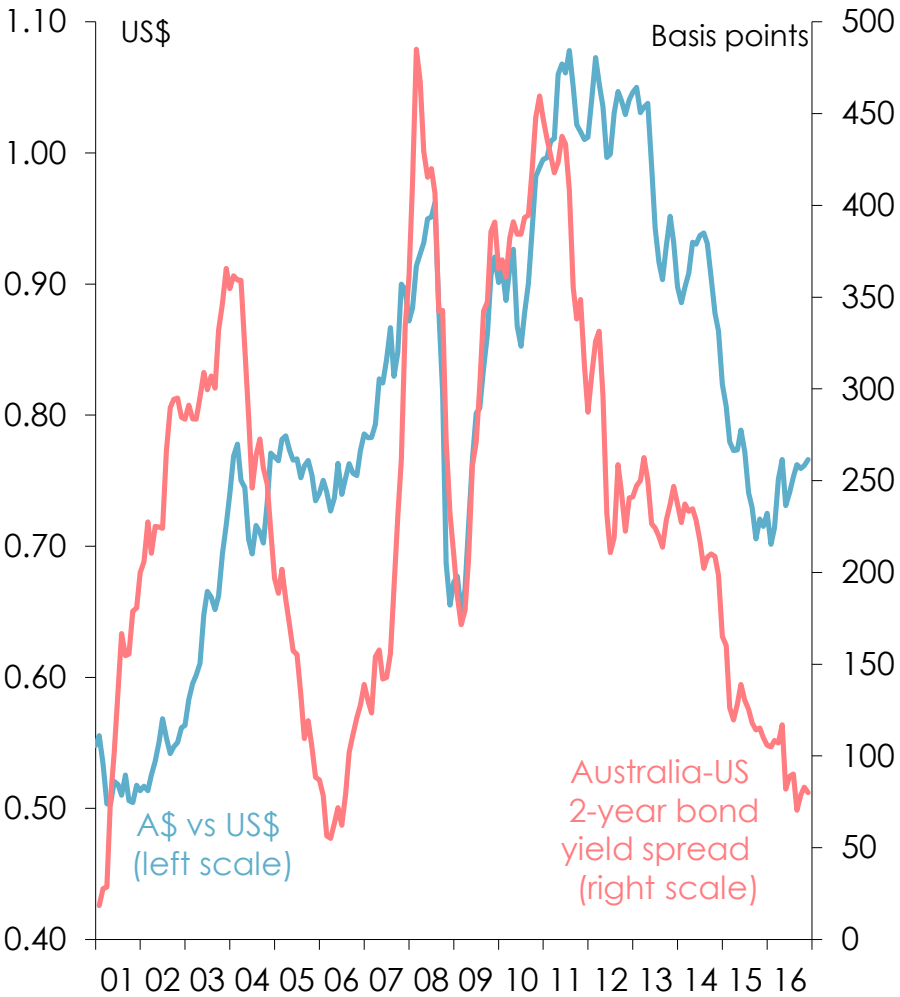
A\$-US\$ and US\$ vs other currencies



A\$-US\$ and commodity prices



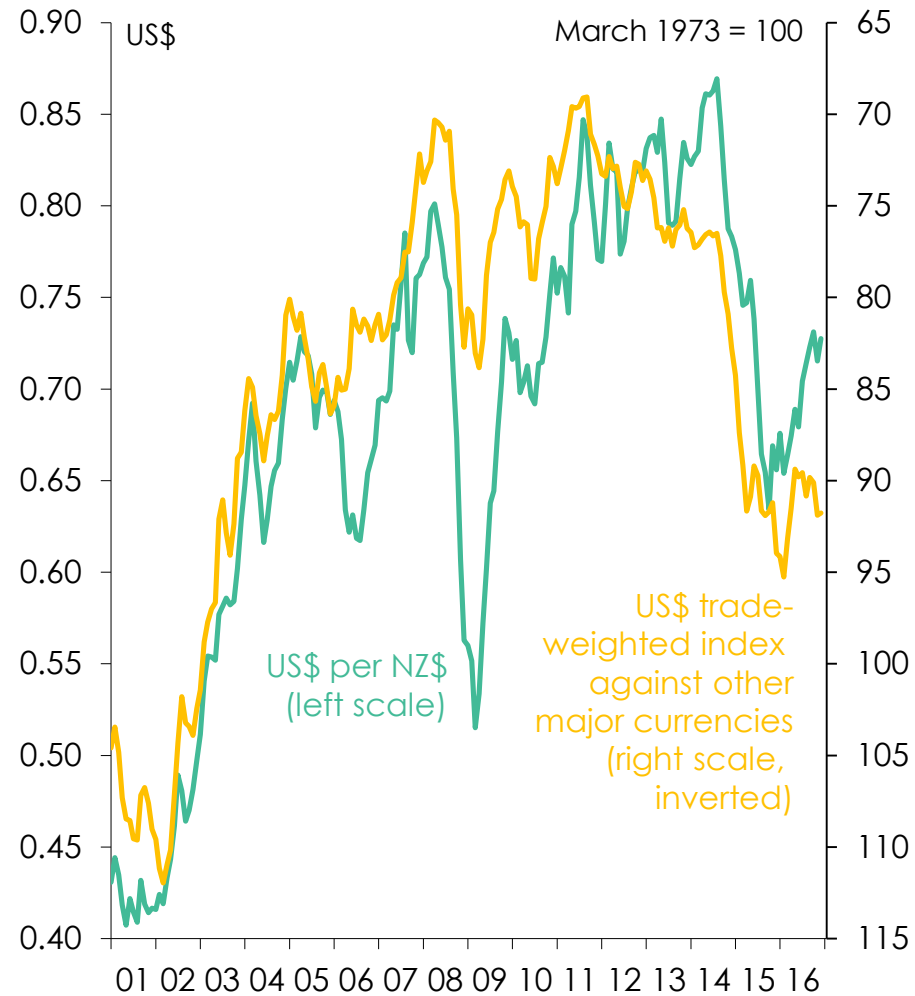
A\$-US\$ and Australia-US interest rate spreads



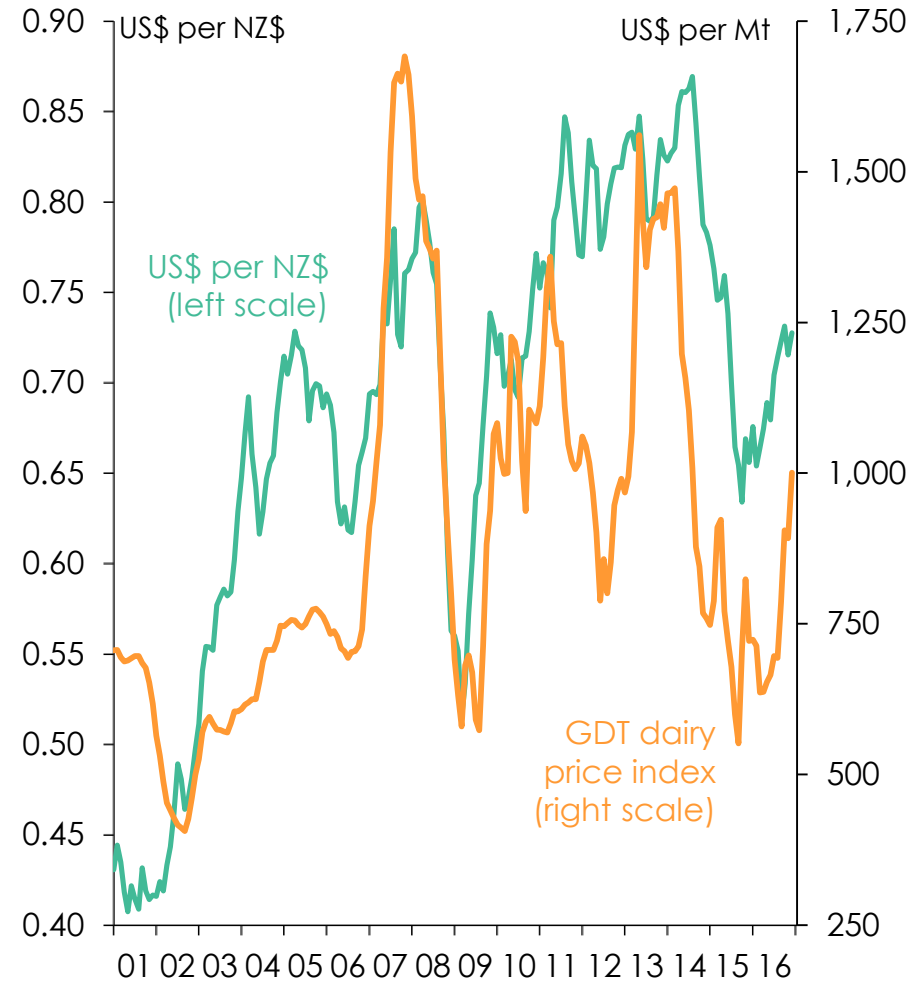
Sources: Thomson Reuters; US Federal Reserve; Reserve Bank of Australia

The NZ\$-US\$ rate is likewise driven by fluctuations in the US\$ itself, dairy prices and the trans-Tasman interest rate spread

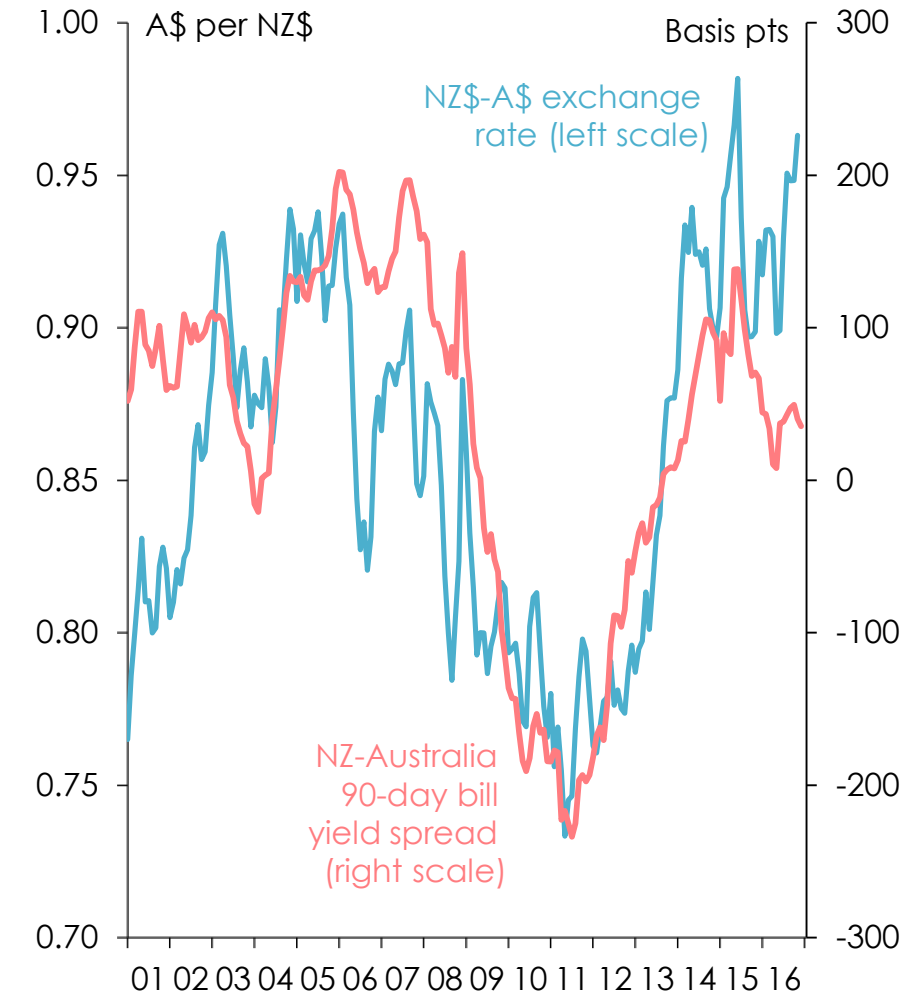
NZ\$-US\$ and US\$ vs other currencies



NZ\$-US\$ and dairy prices



NZ\$-A\$ and NZ-Australia interest rate spreads



Sources: Thomson Reuters; US Federal Reserve; Global Dairy Trade; Reserve Bank of New Zealand.

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

This document has been prepared for the use of the party or parties named on the first page hereof, and is not to be further circulated or distributed without permission.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. Neither Saul Eslake nor Corinna Economic Advisory Pty Ltd however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. The author and Corinna Economic Advisory Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.

bettercallsaul.com.au

SAUL ESLAKE