
ANZ National Bank

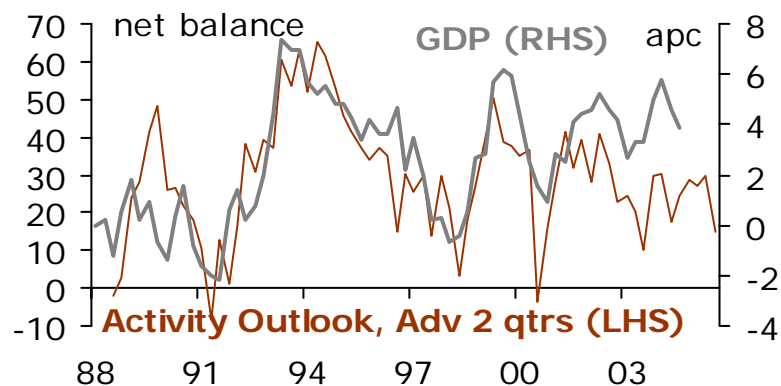
New Zealand Economic Update

John McDermott – Chief Economist

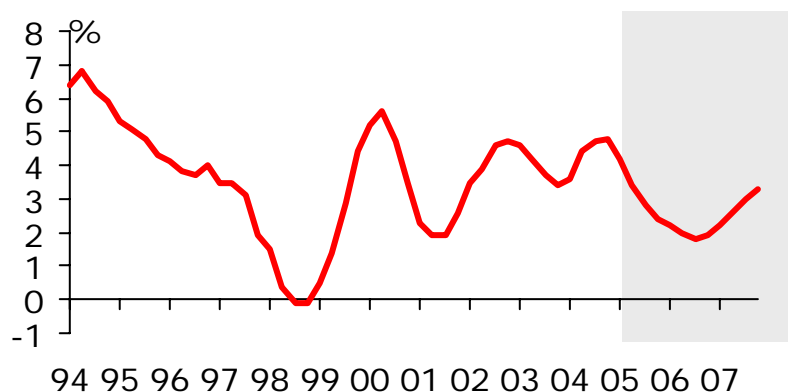
14 June 2005

NZ economic growth was strong through end-2004 although a turning point has been reached

Economic growth & activity outlook



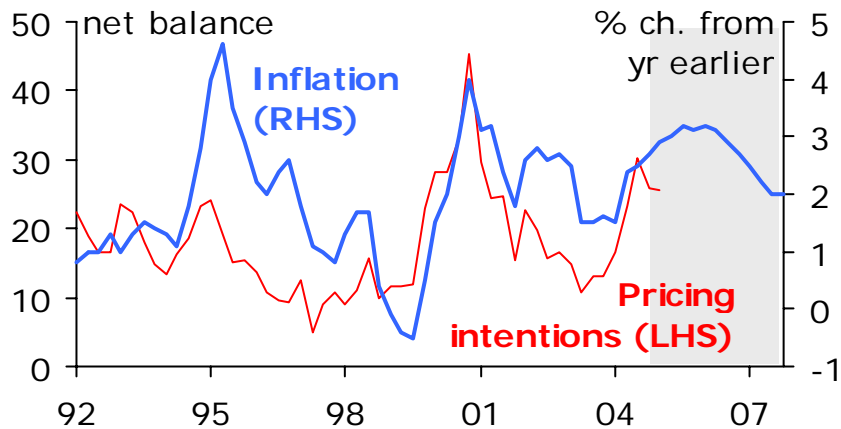
Growth outlook



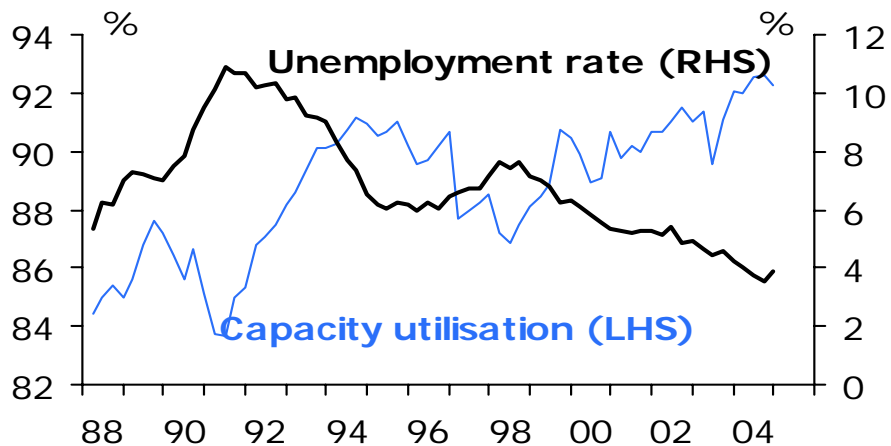
- Economic prospects are being curtailed on the supply side by capacity constraints.
- Tighter monetary conditions are fostering a moderation in growth from the demand side.
- Moderating growth is required to alleviate excess demand pressure within the economy.
- There is enough momentum to push towards 2.5-3 percent in 2005.
- At the trough in the economic cycle (2006), a solid 2 percent growth outcome is still expected, which is within one standard deviation of the trend rate.

NZ inflationary pressures remain intense

Inflation & pricing intentions



Resource pressures biting

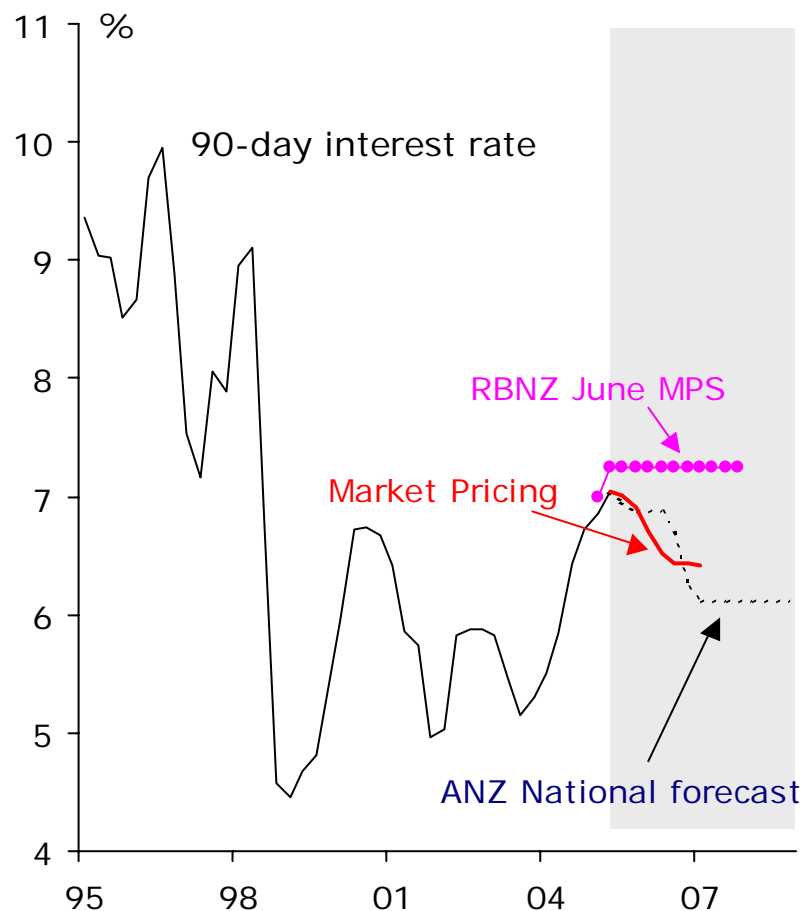


Sources: Stats NZ, RBNZ, National Bank, ANZ National Bank

- Inflation is rising and looks set to remain at or above the top of the 1 to 3 percent policy band over the coming year.
- A tight labour market is beginning to manifest itself into wage demands.
- Across a broad range of pricing gauges, pricing pressure is broadening and more endemic than 1995 (when inflation reached 4%).
- These cost-push pressures will eventually dissipate. But not until economic momentum eases below 3 percent.

RBNZ monetary policy will remain in a restrictive stance

Interest rates - restrictive

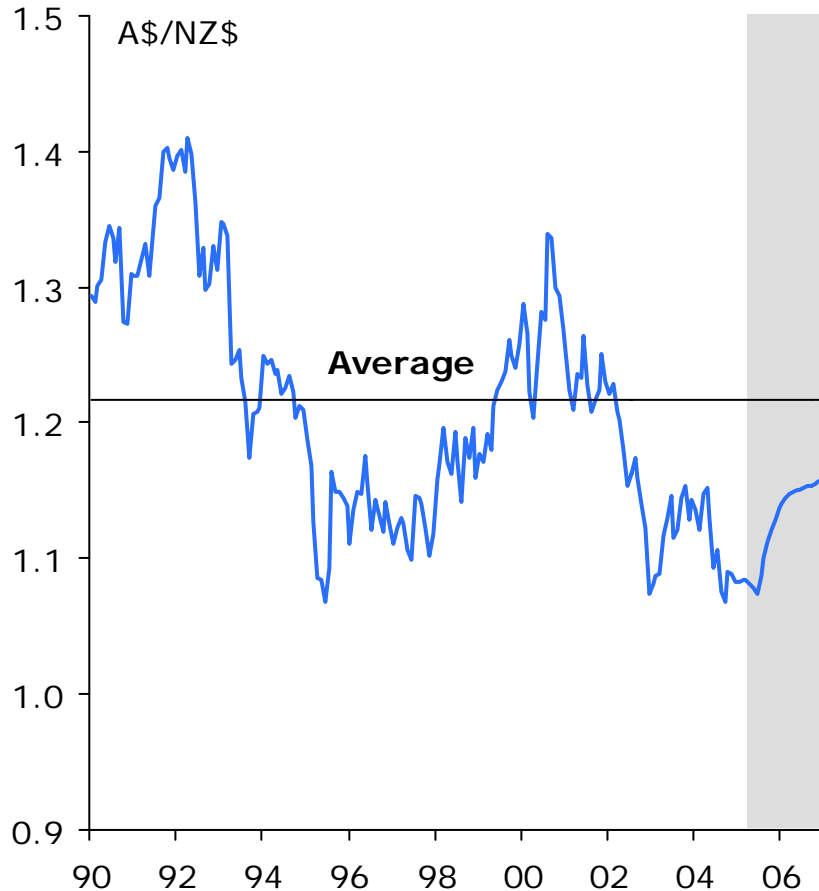


Sources: Reuters; ANZ National Bank

- RBNZ's June Monetary Policy Statement left OCR unchanged at 6.75 percent but had a hawkish tone, with a further rate increase implicitly in the RBNZ's interest rate forecasts.
- However, we expect the current OCR level of 6.75 percent to be the peak in the interest rate cycle. Regardless, monetary policy looks set to remain in a restrictive stance with the OCR at 6.75 percent for some time.
- Eventually, the combination of moderating growth and easing inflation pressure will allow monetary policy to shift back to a neutral setting (from mid 2006).

Notwithstanding recent persistent NZ\$ strength vs the A\$ the kiwi is still expected to weaken

A\$/NZ\$



- The yield differential continues to support the NZ\$ relative to the A\$.
- Conversely strong commodity prices should be more favourable the A\$.
- However, ultimately it is relative growth prospects that matter most.
- Eventually we expect the out-performance of the Australian economy over 2006 to foster a mean-reverting trend.

Summary of forecasts – New Zealand (bank year)

	2005	2006	2007
Real GDP	2.9	2.1	2.7
Inflation	3.0	3.0	1.8
Unemployment	3.7	4.5	4.3
Cash rate	6.75	6.50	6.00
10 year bonds	6.3	6.7	6.6
\$NZ/\$US	0.675	0.565	0.573
System Credit	13.0	10.0	7.9
- Housing	13.9	9.3	8.6
- Business	14.3	11.3	6.9
- Other	10.7	8.3	7.6

Summary

- NZ economy continues to offer attractive, low risk growth.
- NZ economy has performed strongly over last 6 years.
- A short-term correction is forecast in 2006 resulting from current capacity constraint.
- Medium to long term outlook is positive with average real GDP growth of 3% forecast out to 2009. This equates to around 5.1% nominal GDP growth

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