

Economic Outlook and Threats To Dairy

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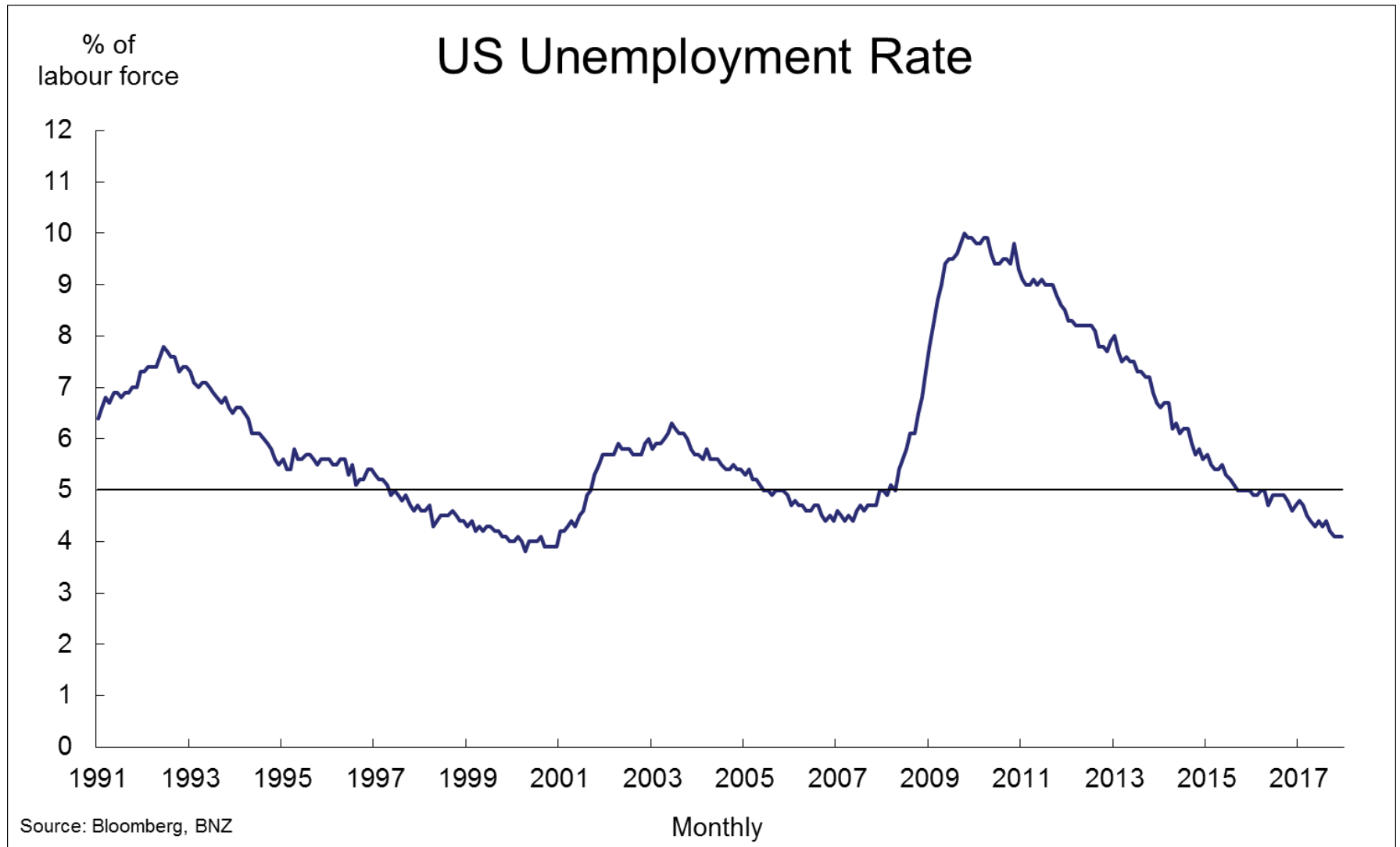
February 2018



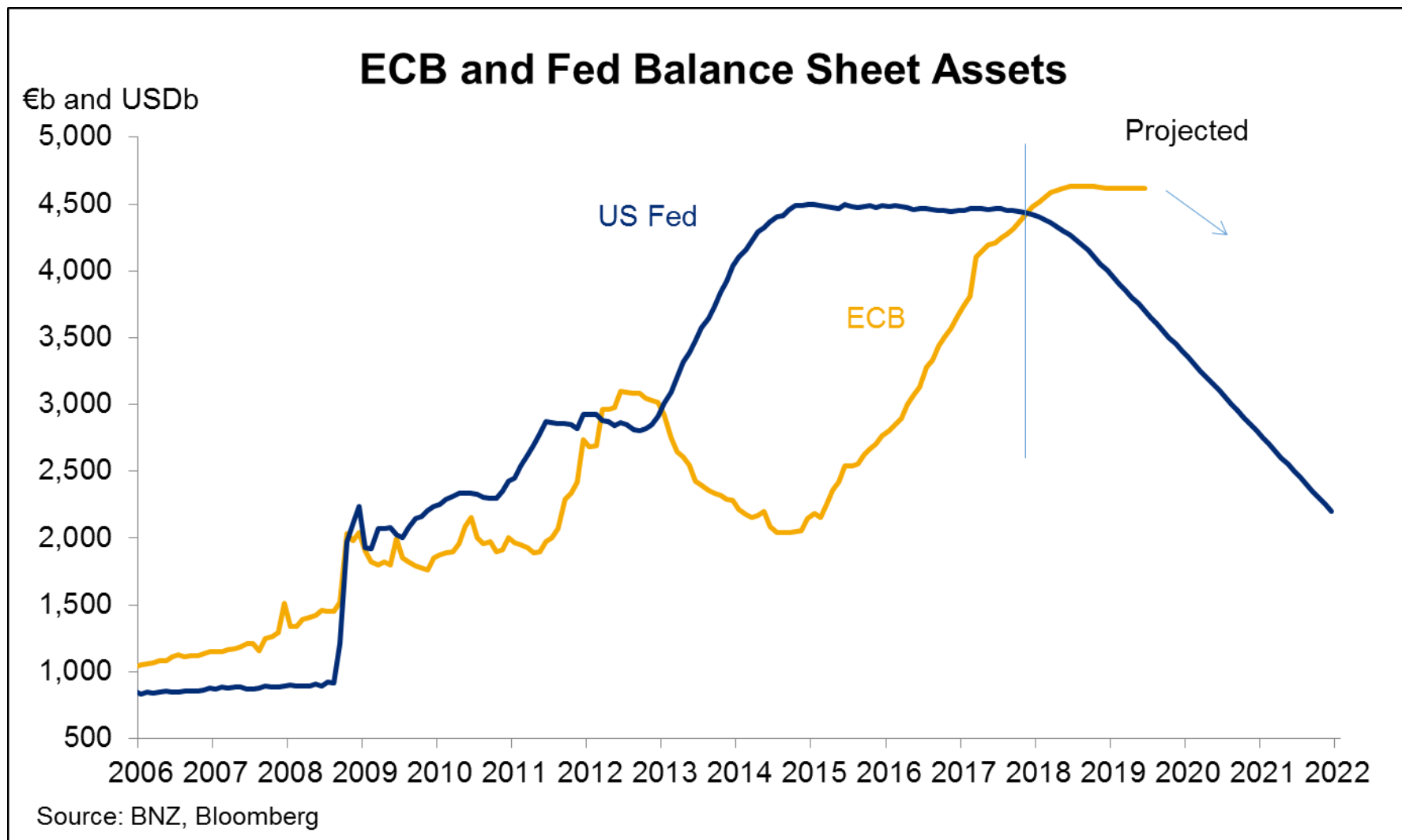
Let's Talk About

- Dairy – challenges and threats through a macroeconomic lens
- The world economy – robust growth brings positives and negatives
- NZ economy
 - been growing well, capacity tightening but little inflation
 - business confidence dented by political change
 - capacity pressures risk cost increases and margin compression

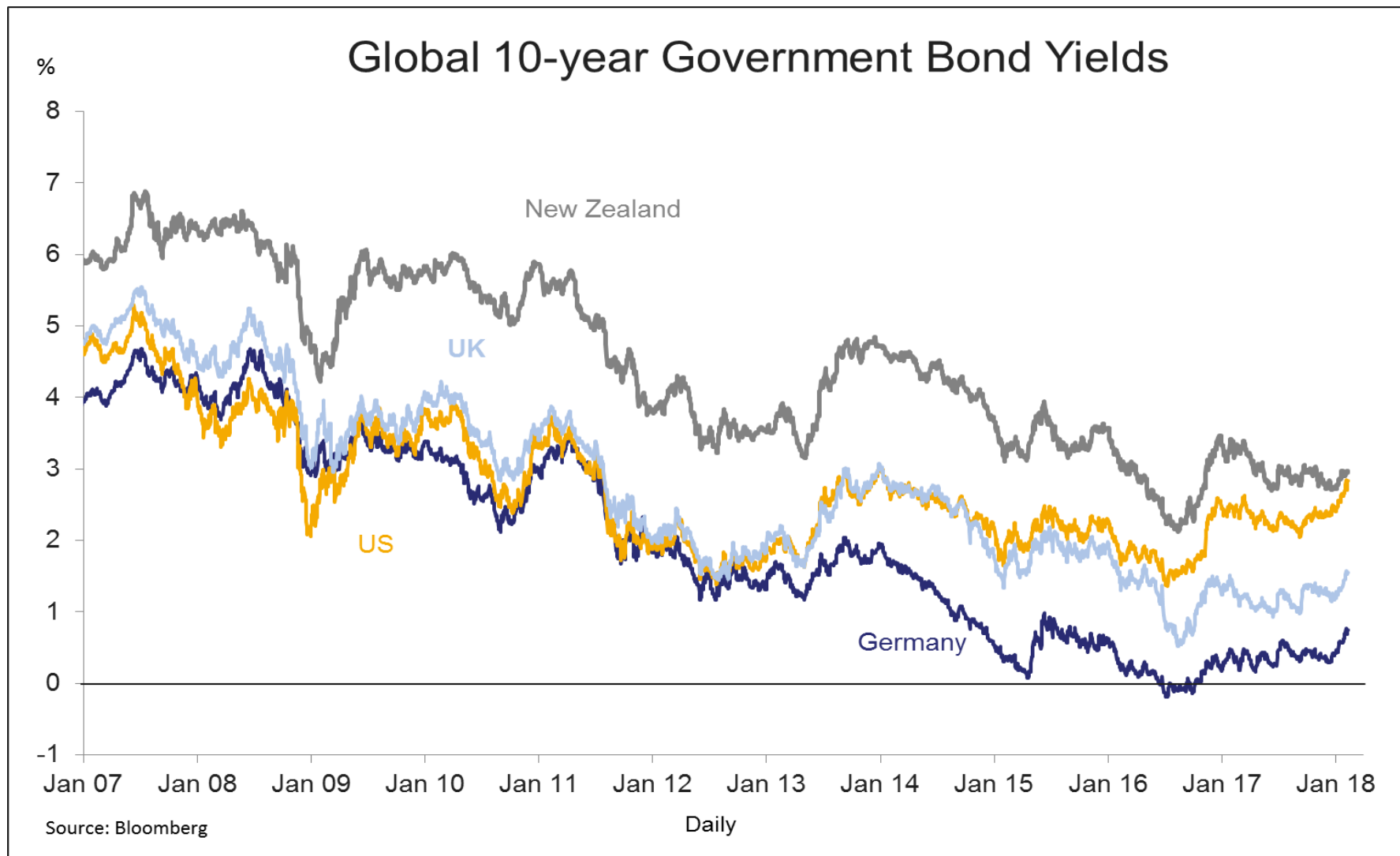
US Recovered – Fed Hiking Interest Rates



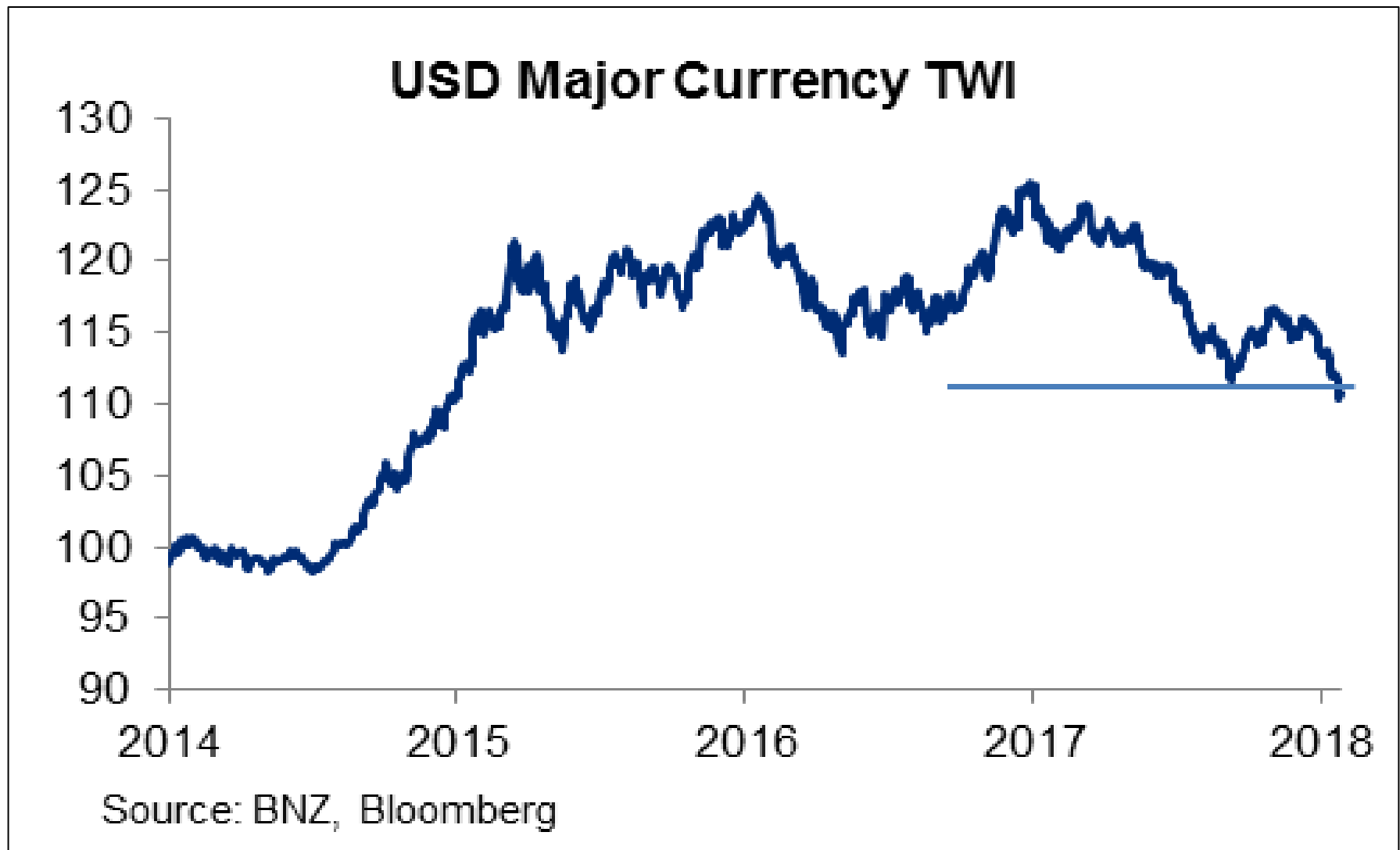
This Is Changing Too



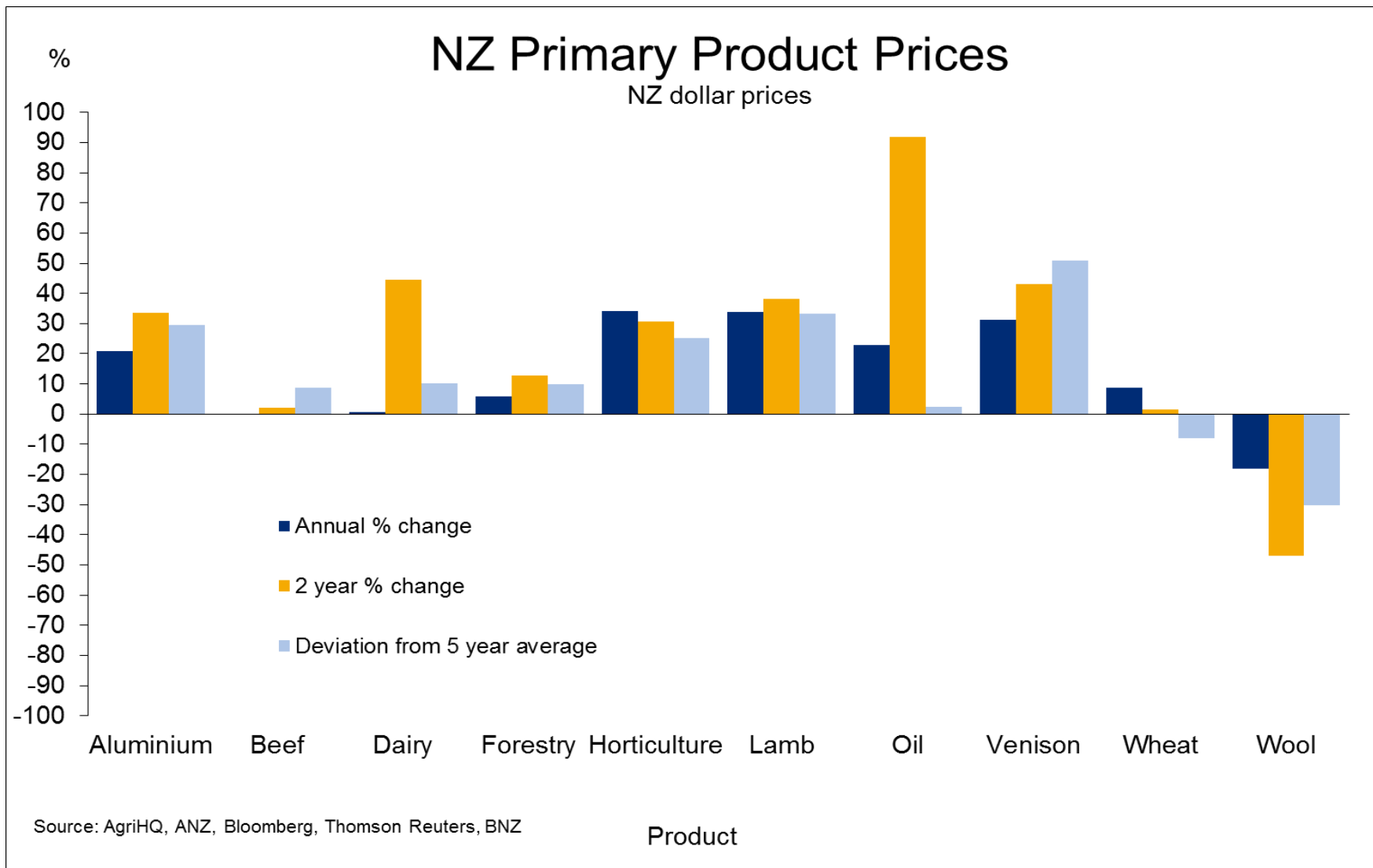
And These Are Turning Higher



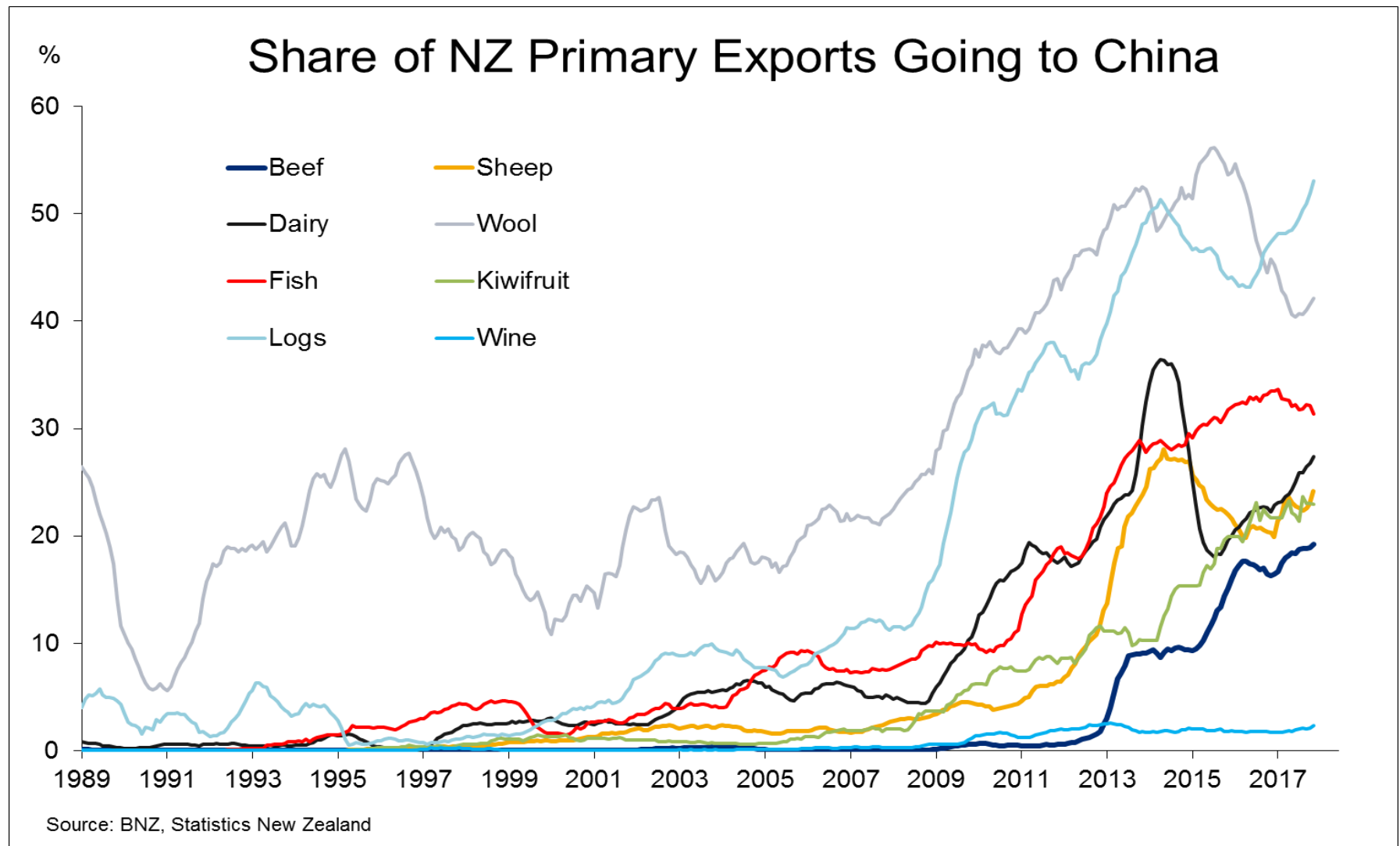
USD Under Pressure, Trade Related?



Widespread Primary Price Strength



China's Increasing Importance – Concentration Risk



NZ Macro Metrics Look Good; Standout Globally

- Latest readings (vs 10 year average):
- GDP annual growth: 2.7% (1.9%)
- Employment growth: 3.7% (1.6%)
- Unemployment rate: 4.5% (5.4%)
- Current account balance (% of GDP): -2.6% (-3.7%)
- Fiscal balance (% of GDP): +1.5% (-1.6%)
- CPI annual inflation: +1.6% (+1.9%)

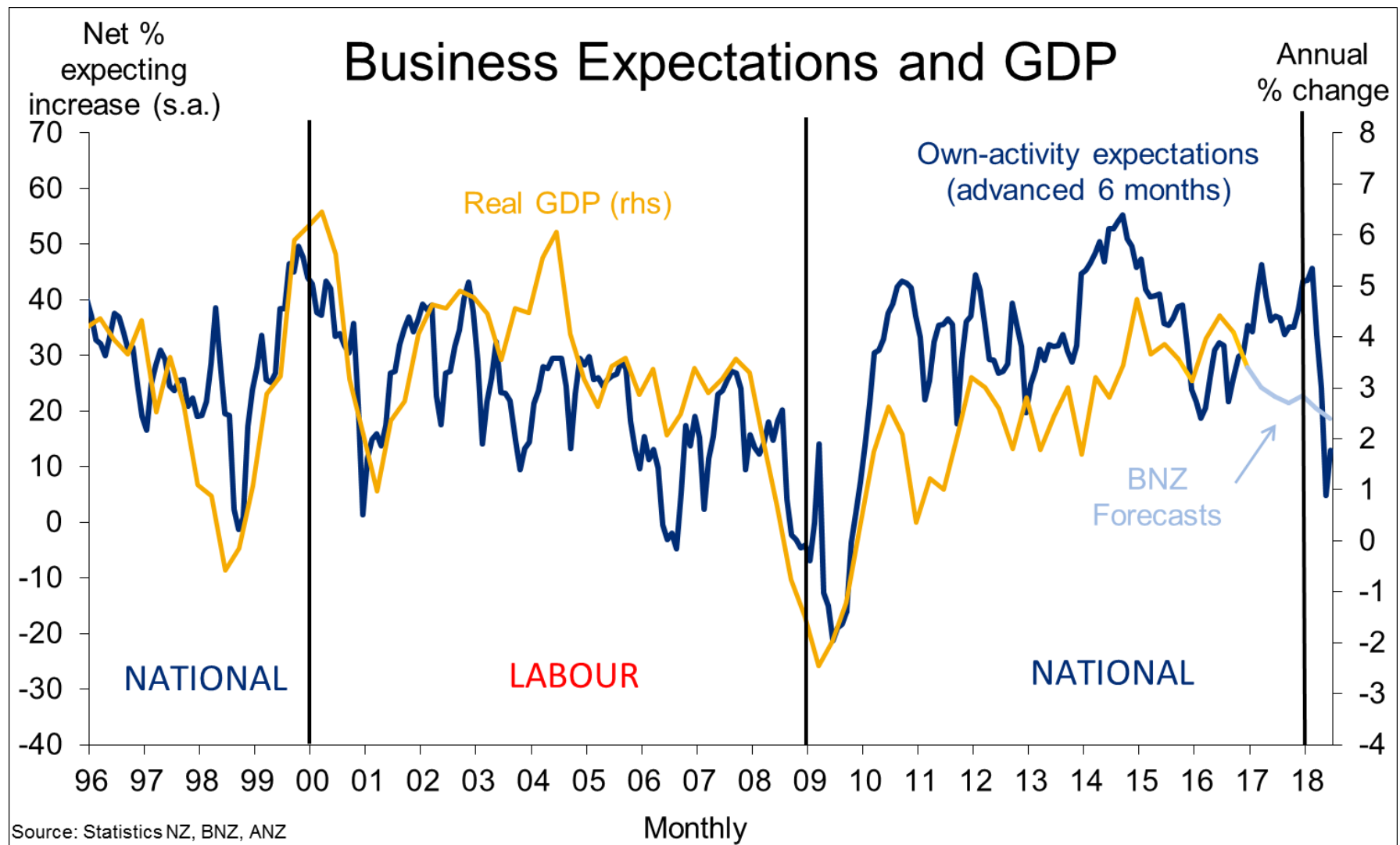
Outlook

- Businesses are wary of Labour
- But it will not kill the expansion
- Although growth is peaking
- Inflation remains tame
- Despite tightening capacity constraints
- OCR hike unlikely this year

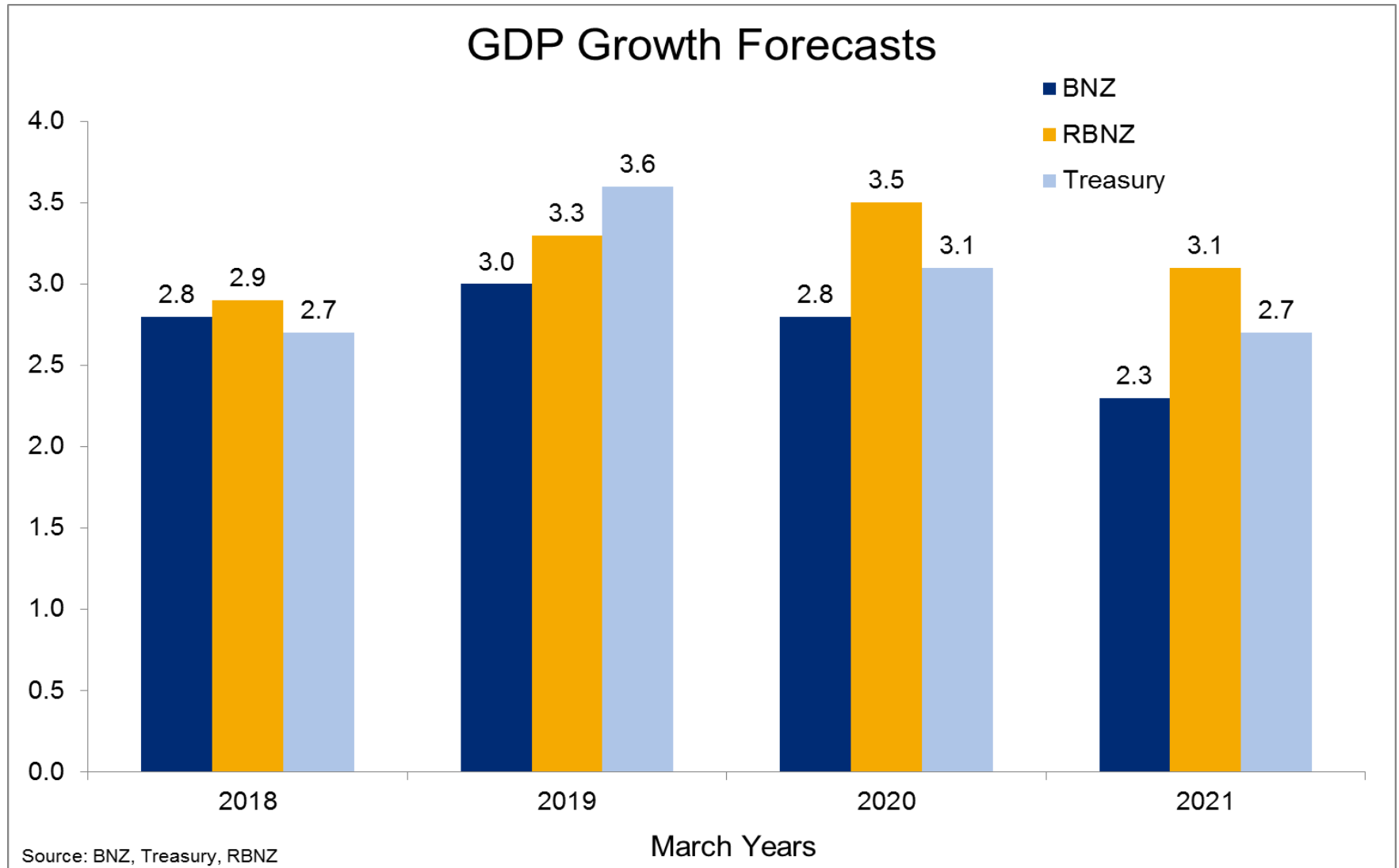
New Government

- Many potential changes, including:
 - Looser fiscal policy
 - Likely larger debt programme
 - More redistributive
 - Likely RBNZ changes – employment in PTA, committee, minutes
 - Extend paid parental leave
 - Build 100,000 houses over 10 years
 - Resume payments to NZ Superfund
 - Keep age of superannuation at 65
 - Tighter rules on foreign ownership
 - Work place relation changes
 - Higher minimum wage slated
 - Looking to reduce net immigration
 - Agriculture into ETS

Confidence Slumps Post Election



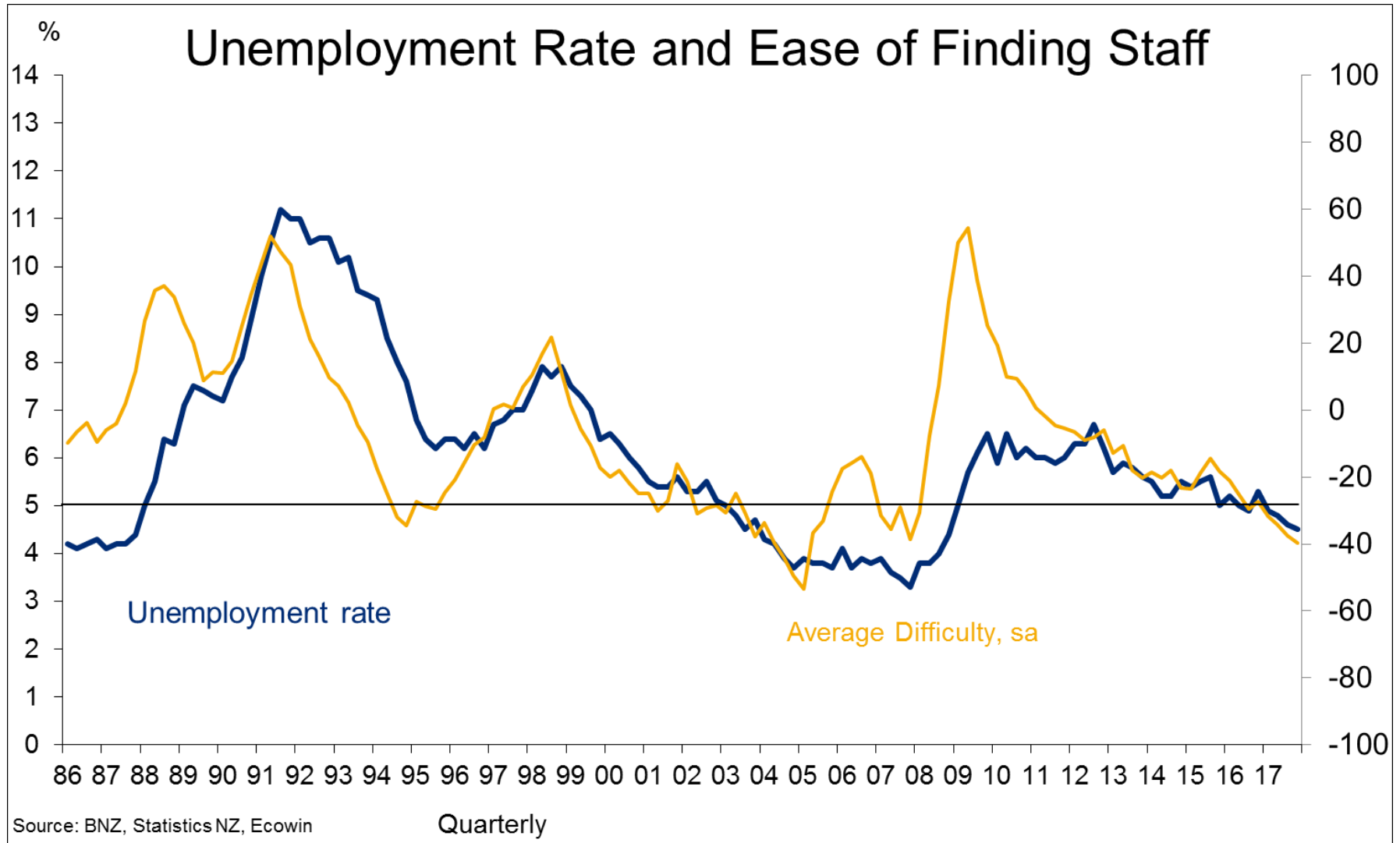
Growth Expectations



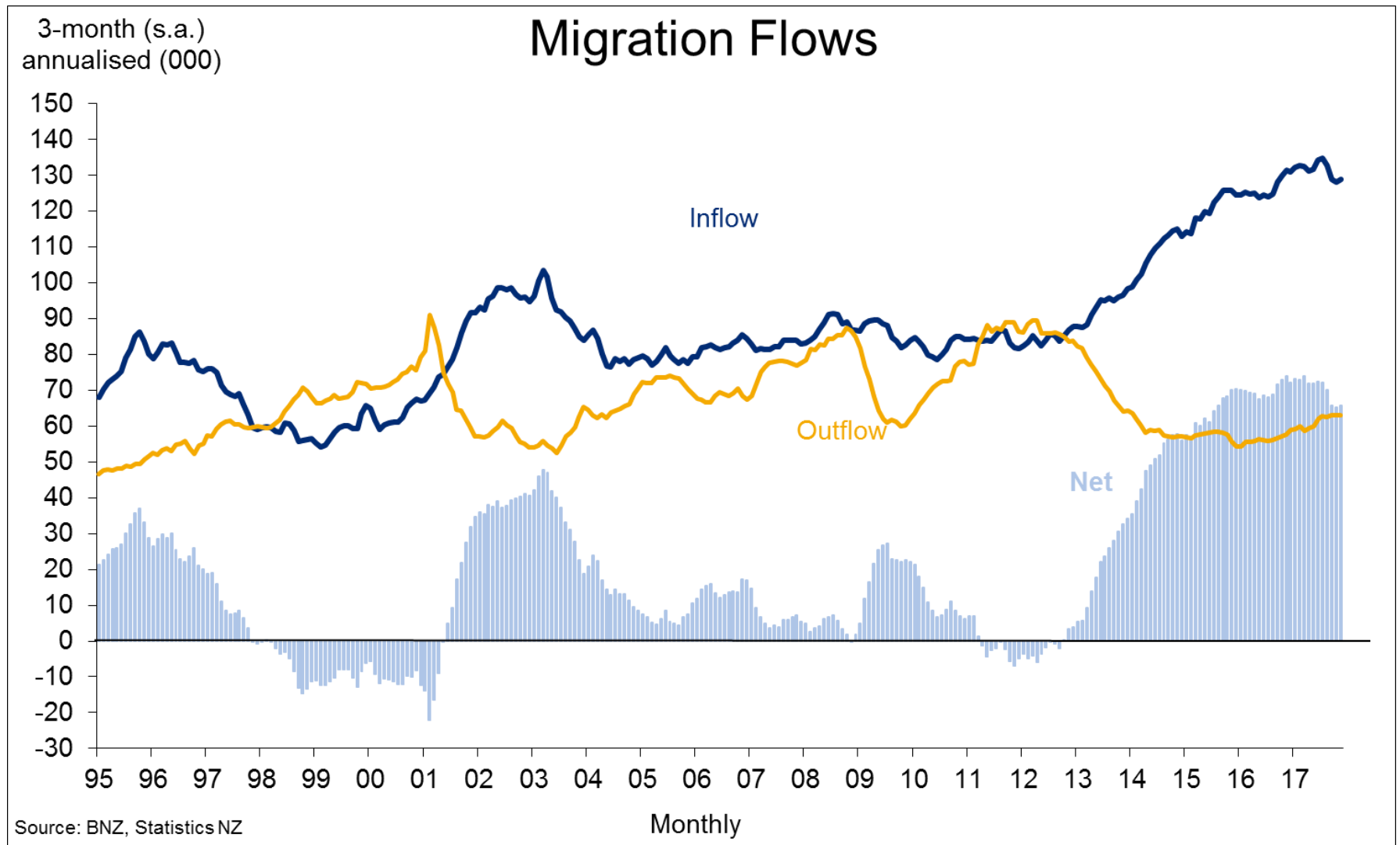
Capacity Constraints Everywhere

- Labour very scarce
- Capacity variables stretched
- Construction activity thwarted
- Tourism facilities packed
- Commercial vacancy rates very low
- Dairy environmentally challenged
- Credit in short supply
- Infrastructure creaking

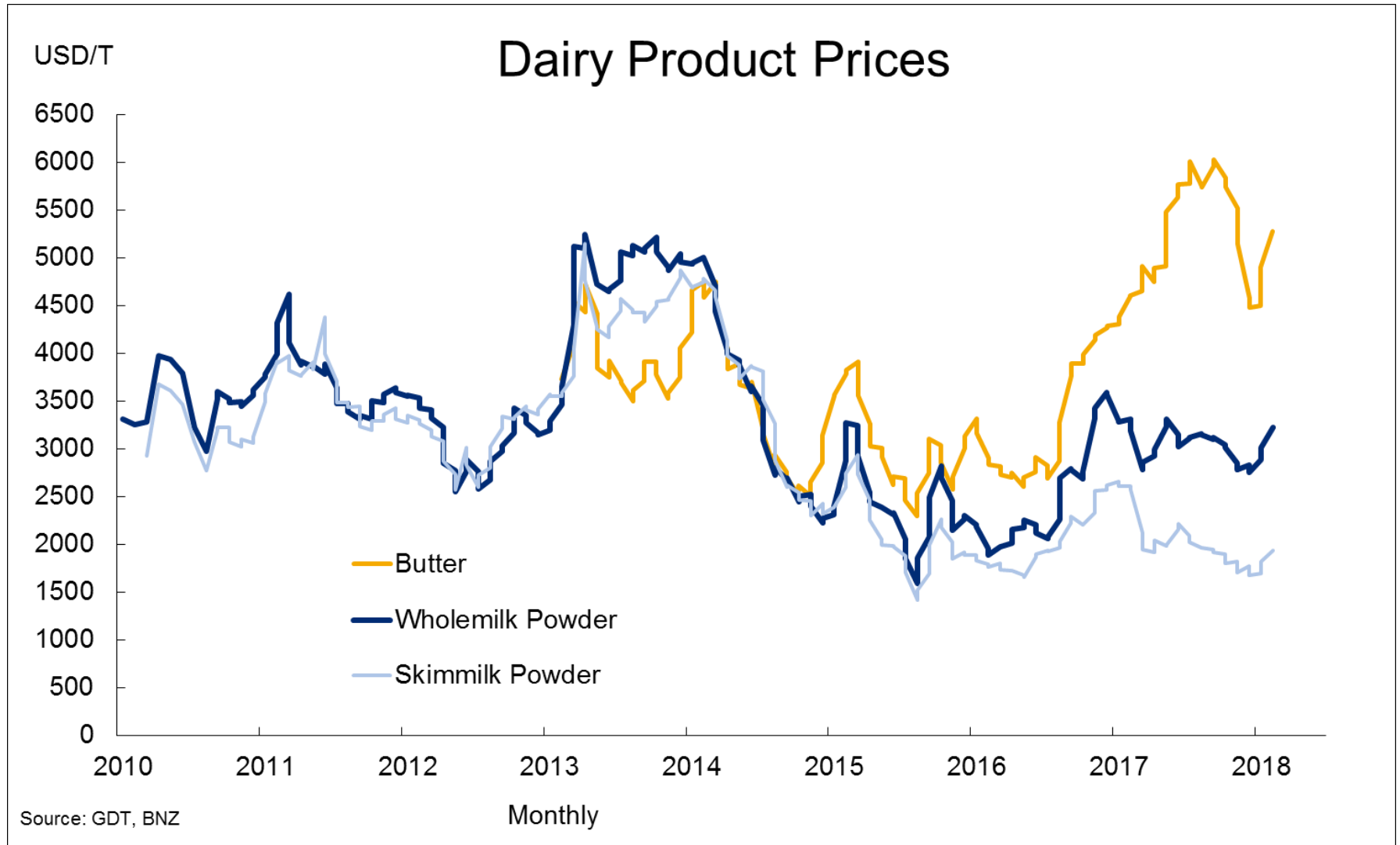
Labour Market Tightening



Despite Strong Net Migration

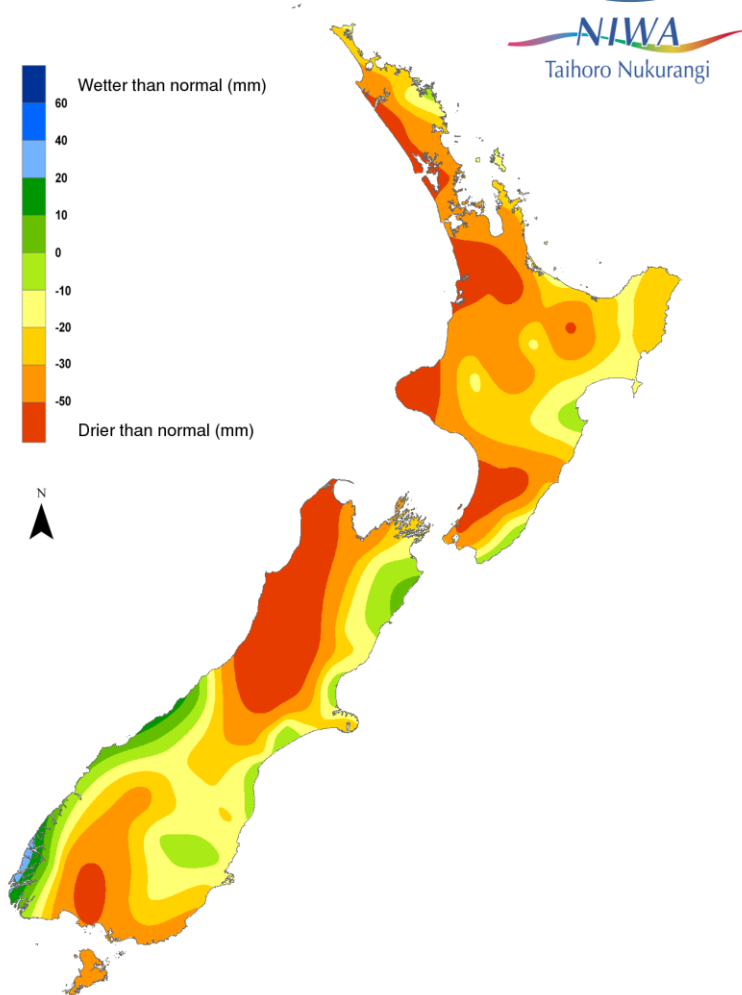


Dairy Prices Varied

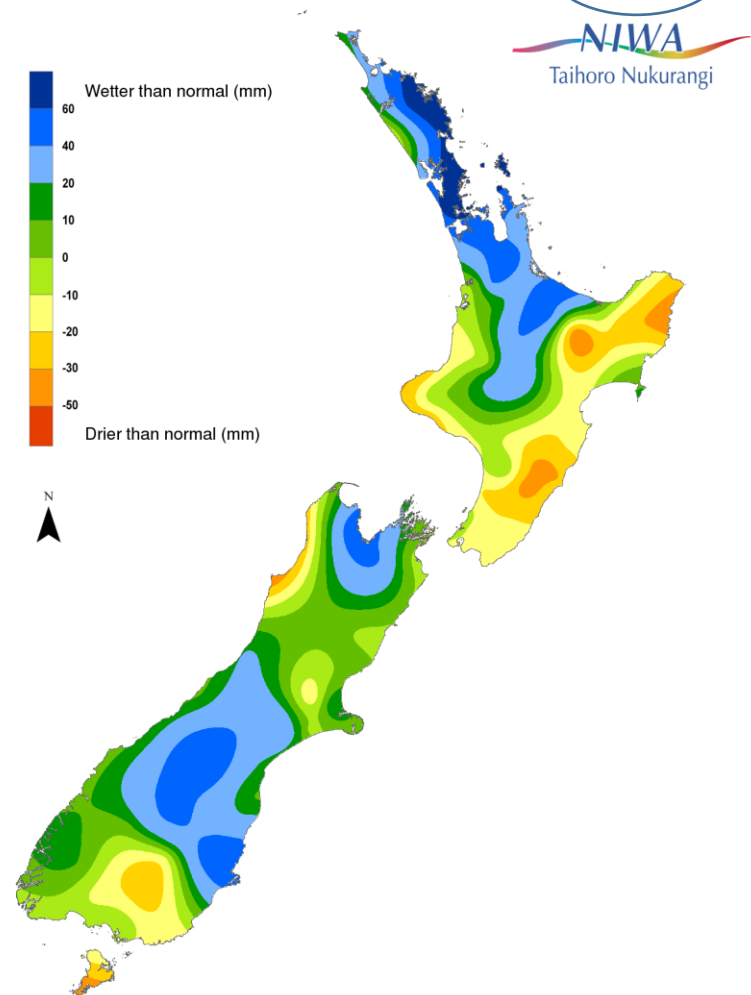


Extreme Weather

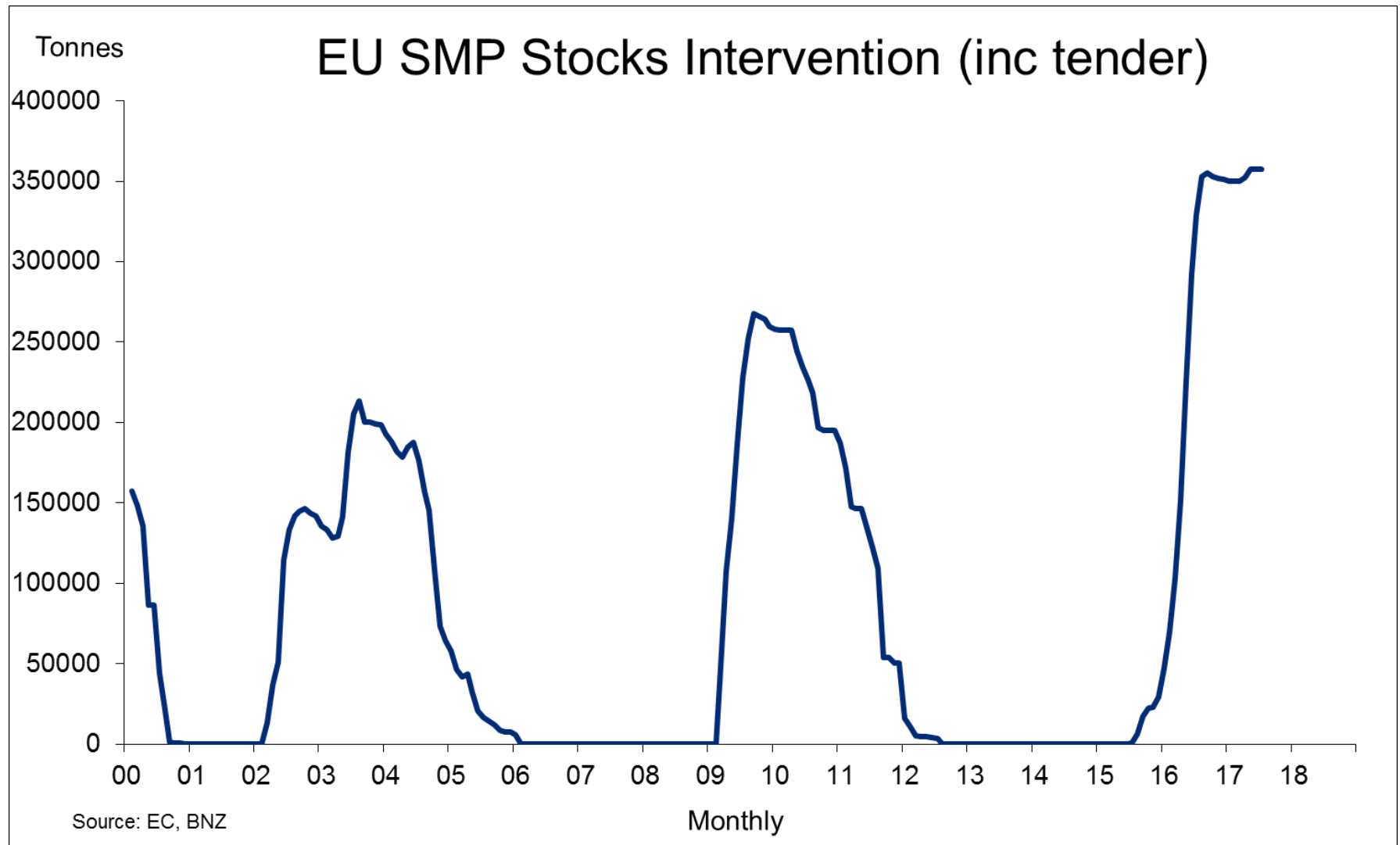
Soil moisture anomaly (mm) at 9am on 27/12/2017



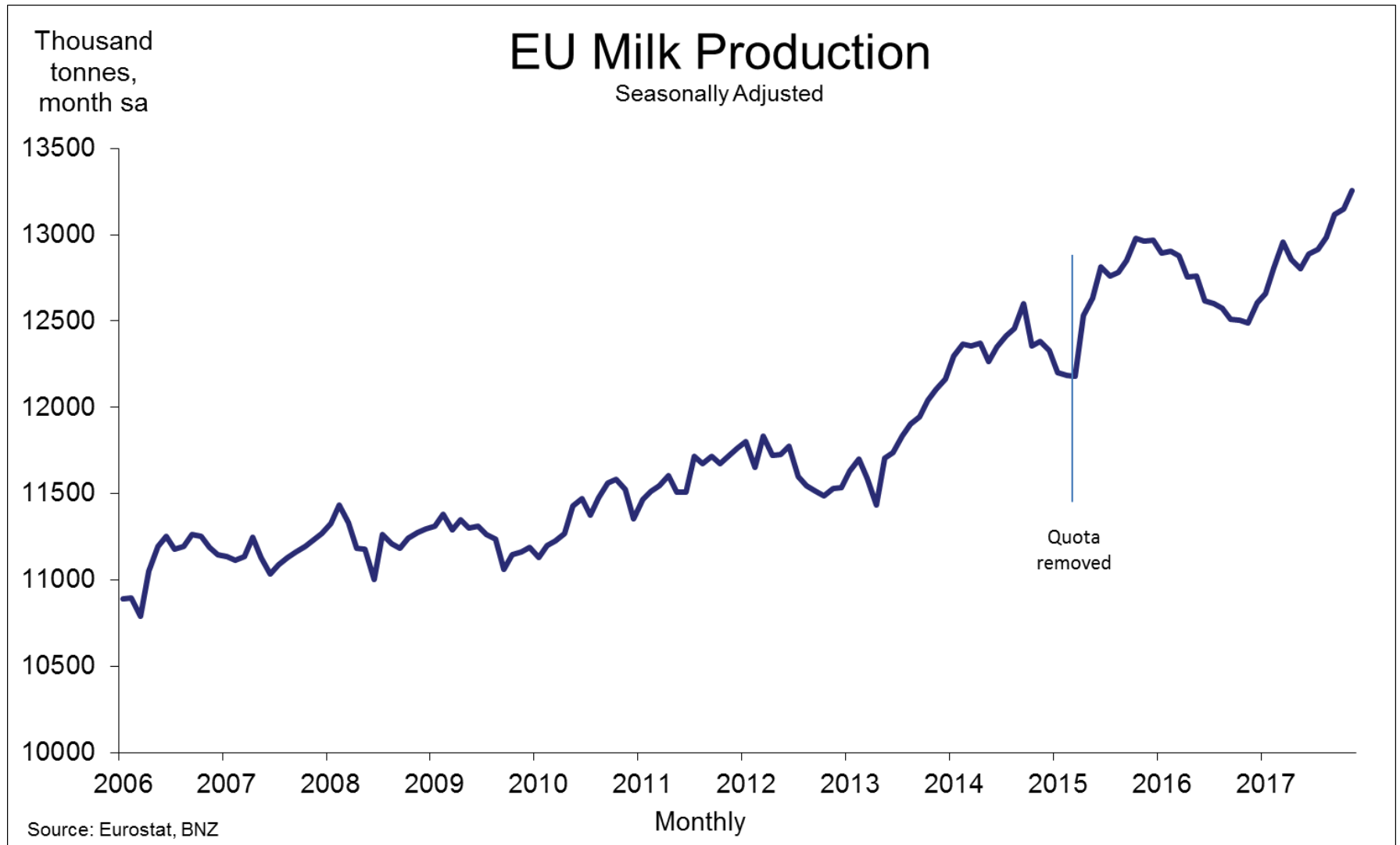
Soil moisture anomaly (mm) at 9am on 06/02/2018



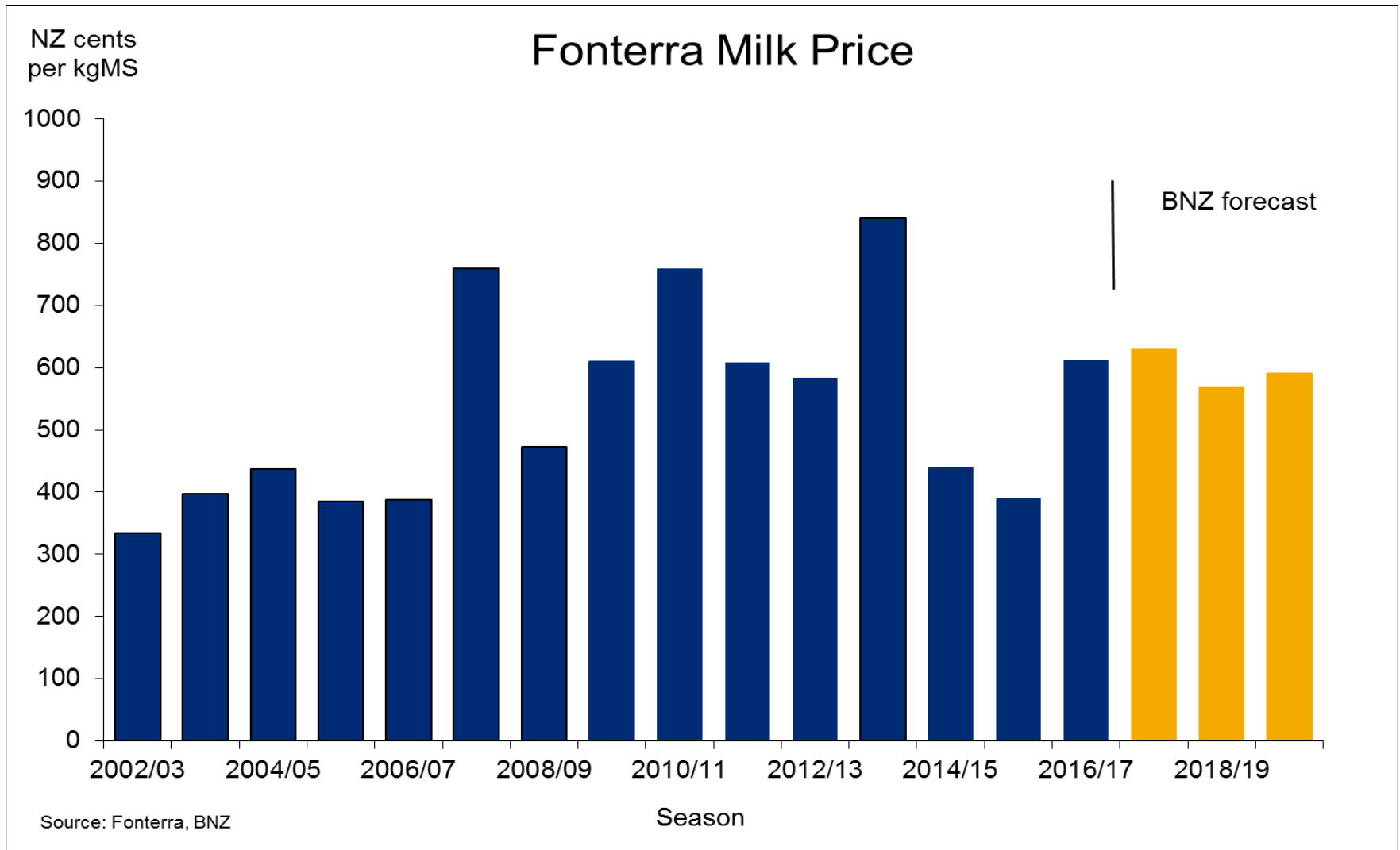
What Will The EU Do With This?



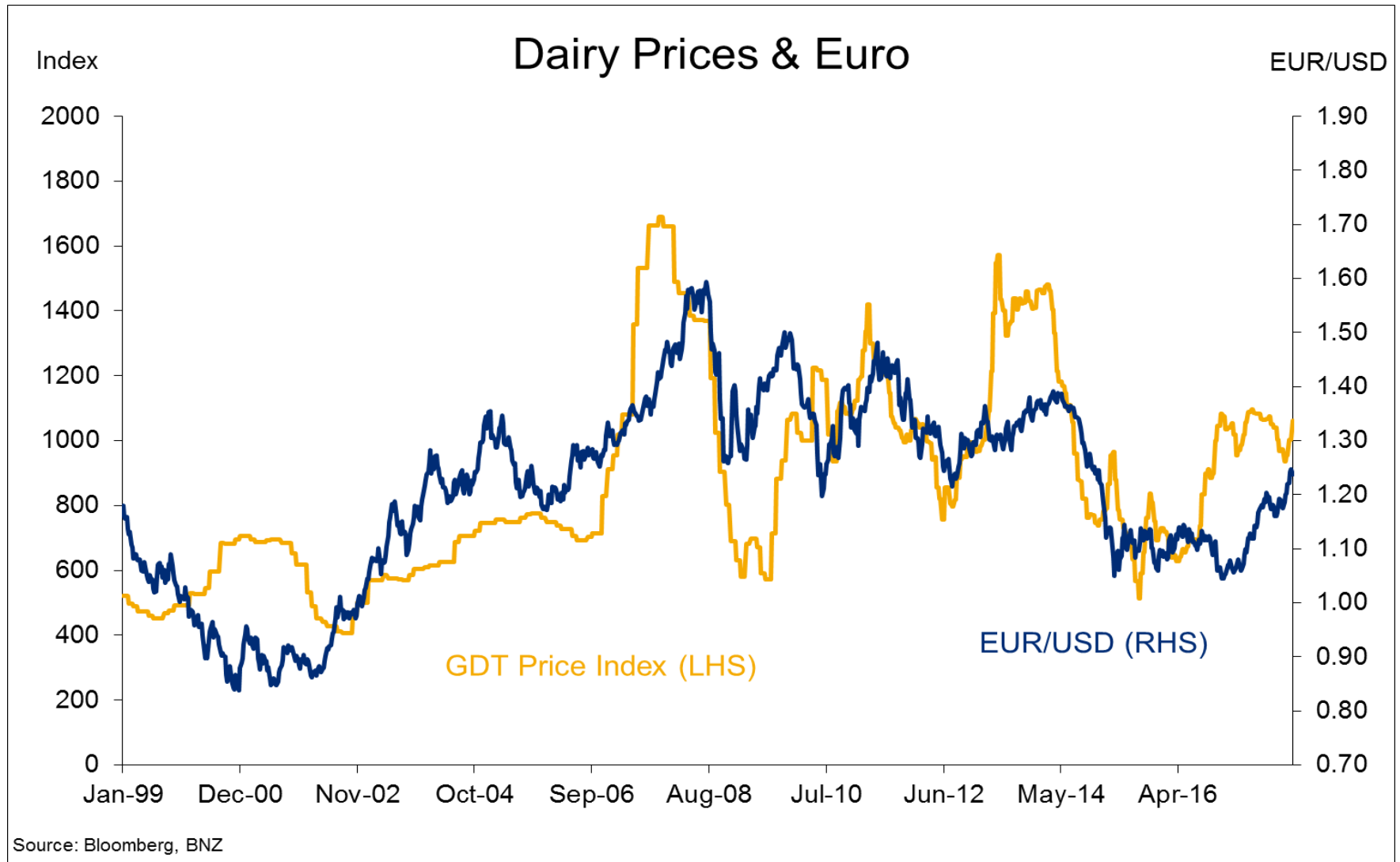
More EU Milk Worrisome



Lower Milk Price Next Season?



Risk Reducing Here



Positives

- Population
- Income growth, particularly in developing countries
- Urbanisation
- Westernisation of diets
- Some trade negotiations
- Value adding, innovation, and productivity

Summary

- World growing strongly
 - Supportive of primary product prices
 - But threatening a turn in global monetary policy, debt costs
- NZ macro metrics look good; housing a risk
 - Cost pressure threat as capacity stretched
 - Staff difficult to find, labour costs to increase
- Climate challenges to increase
 - Climate change
 - Less price response to NZ weather?
- EU dairy influence of even more importance
- Risks aplenty – US policy, monetary experiments, asset prices, inflation trajectory, oil, net migration, disease (m. bovis), Chinese debt, actual Brexit, trade agenda, politics, and geo-political tensions... yet financial market volatility indicators have been low

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