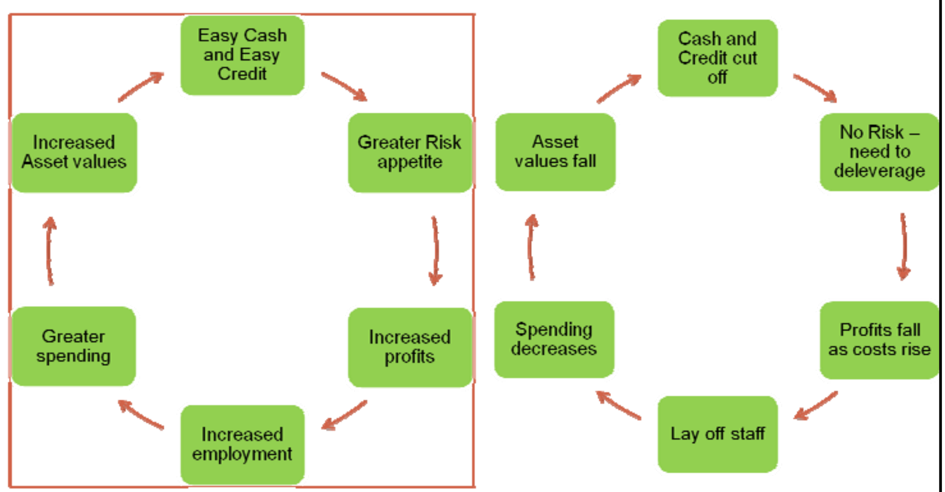
Credit Crunch and its effects

March 2009

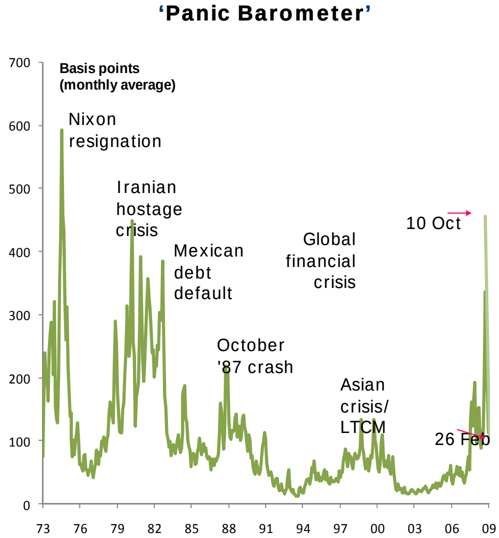
The Big Picture

From this

To this



The worst financial crisis in a generation

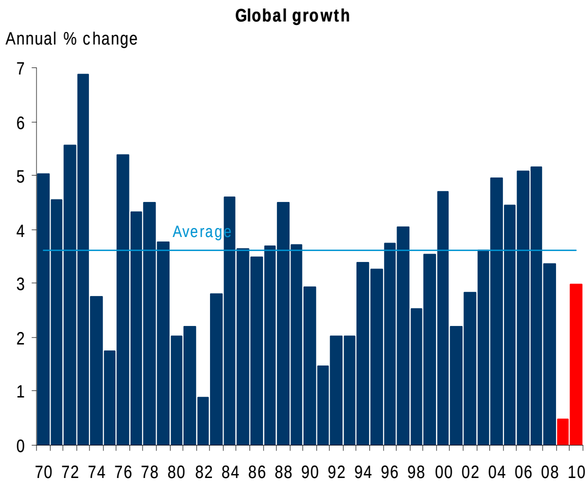


- Three fundamental pillars of the modern financial system have been affected:

- Capital
- Liquidity
- Confidence

- Credit markets remain under stress.
- Global de-leveraging ongoing, with lending standards being tightened in the face of growing economic risks.
- Credit spreads has come off panic-induced extremes of last year, but remain high relative to pre-crisis levels.
- Policymaker actions to date have prevented the situation from getting worse. But a lot of uncertainty still lies ahead.

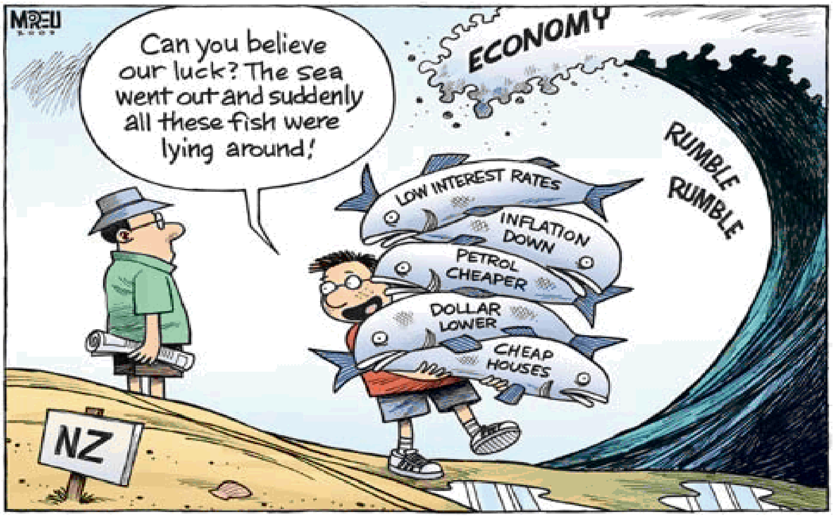
A synchronised global slowdown



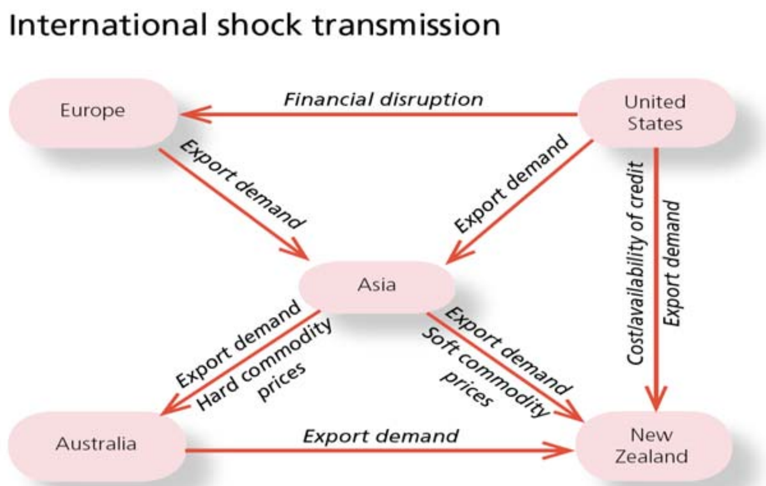
Sources: ANZ National, IMF

- The IMF are forecasting the weakest period of growth since WWII and the risks remain to the downside.
- This is a synchronised global event. The world has not "decoupled".
- Risk of further adverse feedback loop from financial sector to real economies back into the financial sector.
- A circuit breaker is needed and governments are attempting to provide it.

But what about NZ? We are a long way away from the carnage



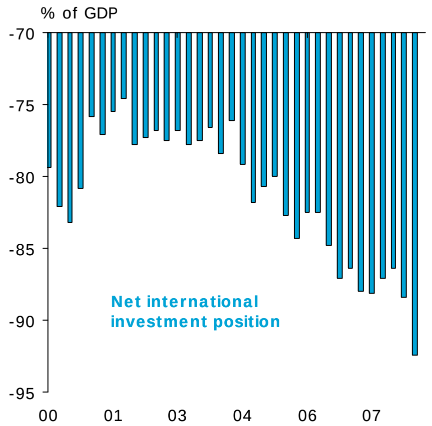
New Zealand yet to feel the full brunt of the global downturn

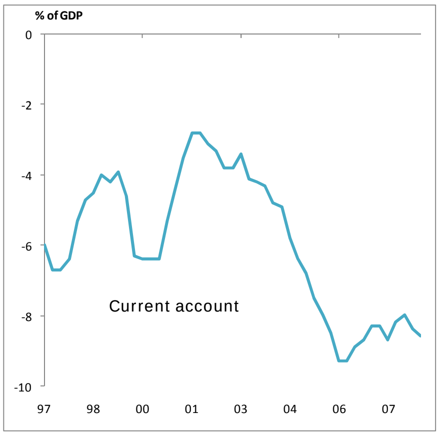


Source: RBNZ.

NZ's external deficit needs to adjust

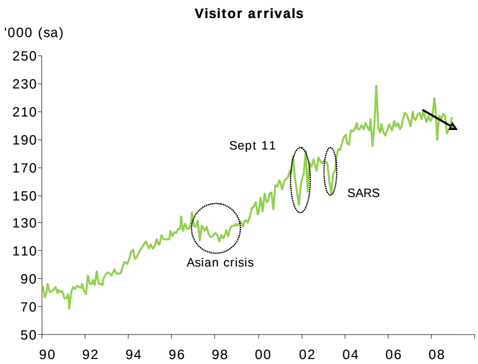
- Net IIP not only needs to stabilise, but has to improve
- NZ's external position is poor and set to deteriorate further



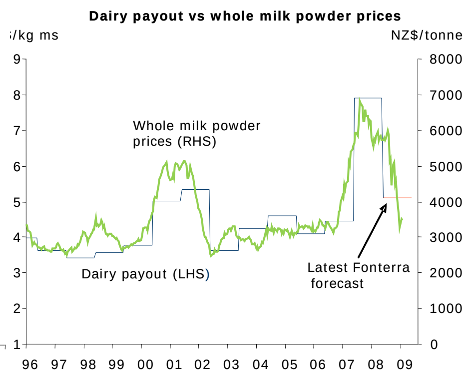


NZ will not be immune

- As an export dependant nation, we will be affected.
- Commodity prices are likely to remain under downward pressure.
- No momentum going into the malaise.



Sources: ANZ National, Statistics NZ



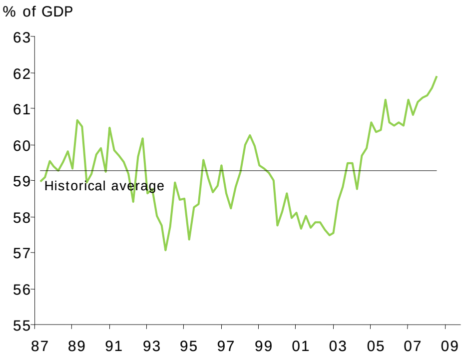
Sources: ANZ National, USDA, Bloomberg

A cyclical downturn & a structural adjustment

TAUPO MOANA GROUP
funds capital investments

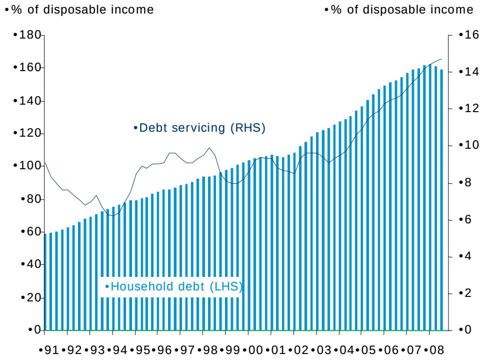
- For the past few years, NZ households have been spending beyond their means, and driving house prices well above what fundamentals justified.
- They were not alone, as credit was cheap and easily available. Strong asset price growth reinforced this spiral until the credit crisis occurred.

Private consumption share of GDP



Sources: ANZ National, Statistics NZ

•Household debt and servicing



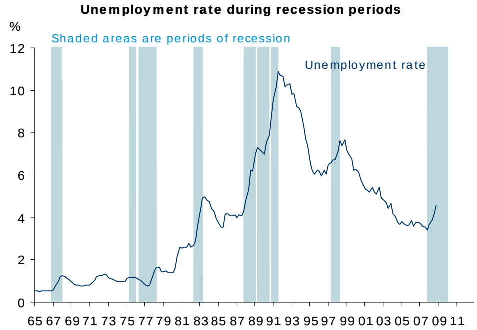
•*Sources:* • ANZ National, RBNZ

Rising unemployment rate key headwind facing households...

TAUPO MOANA GROUP
funds capital investments

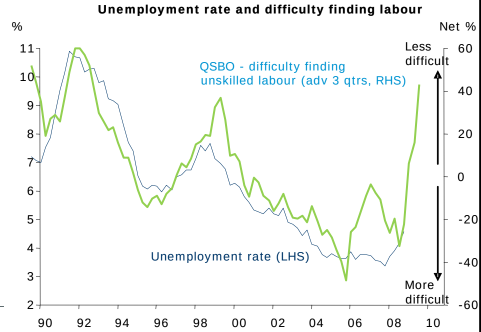
- Unemployment rate tends to accelerate during recession periods and peak two to three quarters after the recession ends.
- Looking at peak in unemployment rate of over 7% in early 2010.
- But could well go much higher, triggering another round of weakness in the domestic economy.

Unemployment rate during recession periods



Sources: ANZ National, Statistics NZ, RBNZ

Unemployment rate and difficulty finding labour



Sources: ANZ National, Statistics NZ, NZIER

But what about all the monetary / fiscal support that has been delivered?

When will we see the recovery?

- Internationally, three conditions need to be met:
  - the "credit wheels" need to turn
  - asset prices (particularly US house prices) need to stabilise
  - "losses" need to be disclosed

- Locally, we are watching cyclical gauges:
  - business confidence, house sales, building consents, which monetary and fiscal stimulus will eventually support

- But structural aspects are also very important for how sustained any recovery will be:
  - savings rates, ratio of consumption to GDP, current a/c deficit, composition of imports

It isn't all bad news

- Productivity growth – resources freed up for more productive areas
- Our banking sector has been left relatively unscathed
- There will be ‘winners’, just as there will be ‘losers’
- Let’s not forget about NZ’s strong medium-term story
- Don’t fret, a recovery will come – it always does