



September 2018

NZ economic outlook

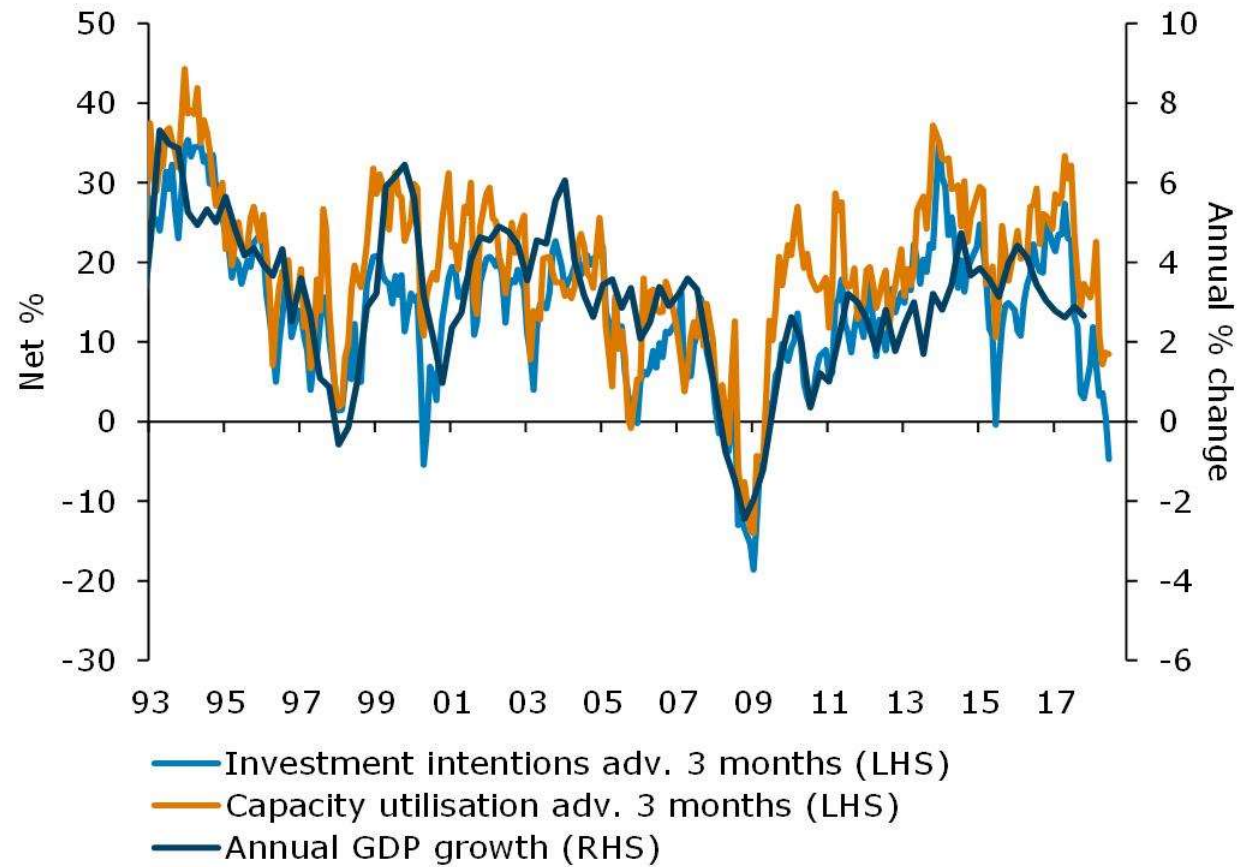
Sharon Zollner, Chief Economist





The sky is falling!

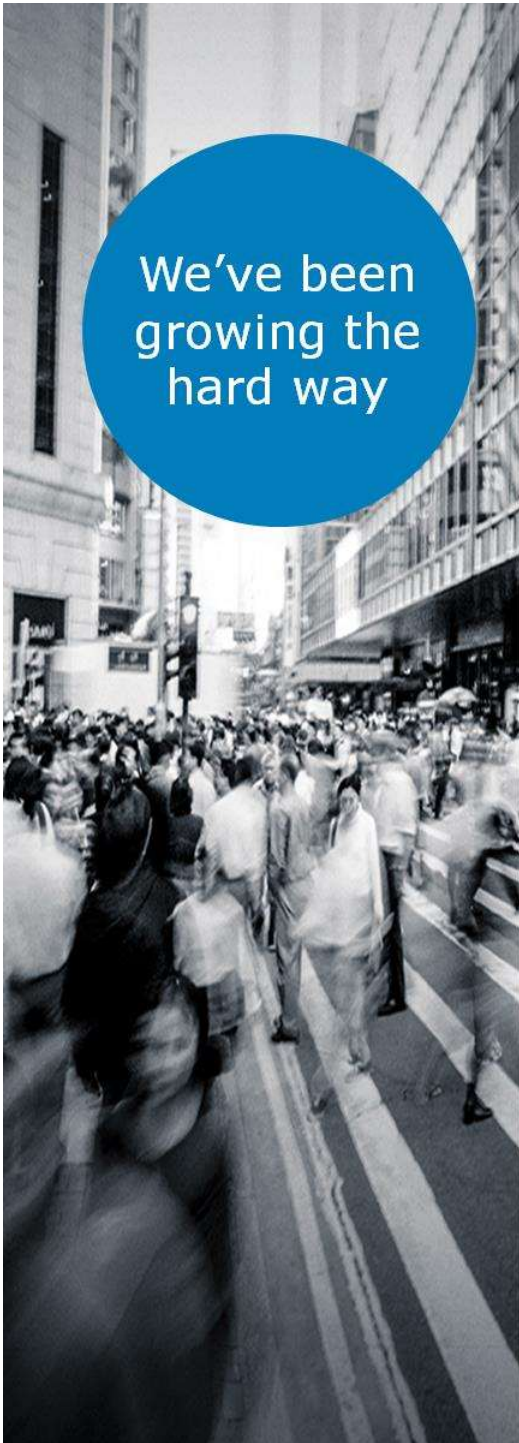
ANZ Business Outlook key metrics vs. GDP



- How deep a hole can we talk ourselves into?

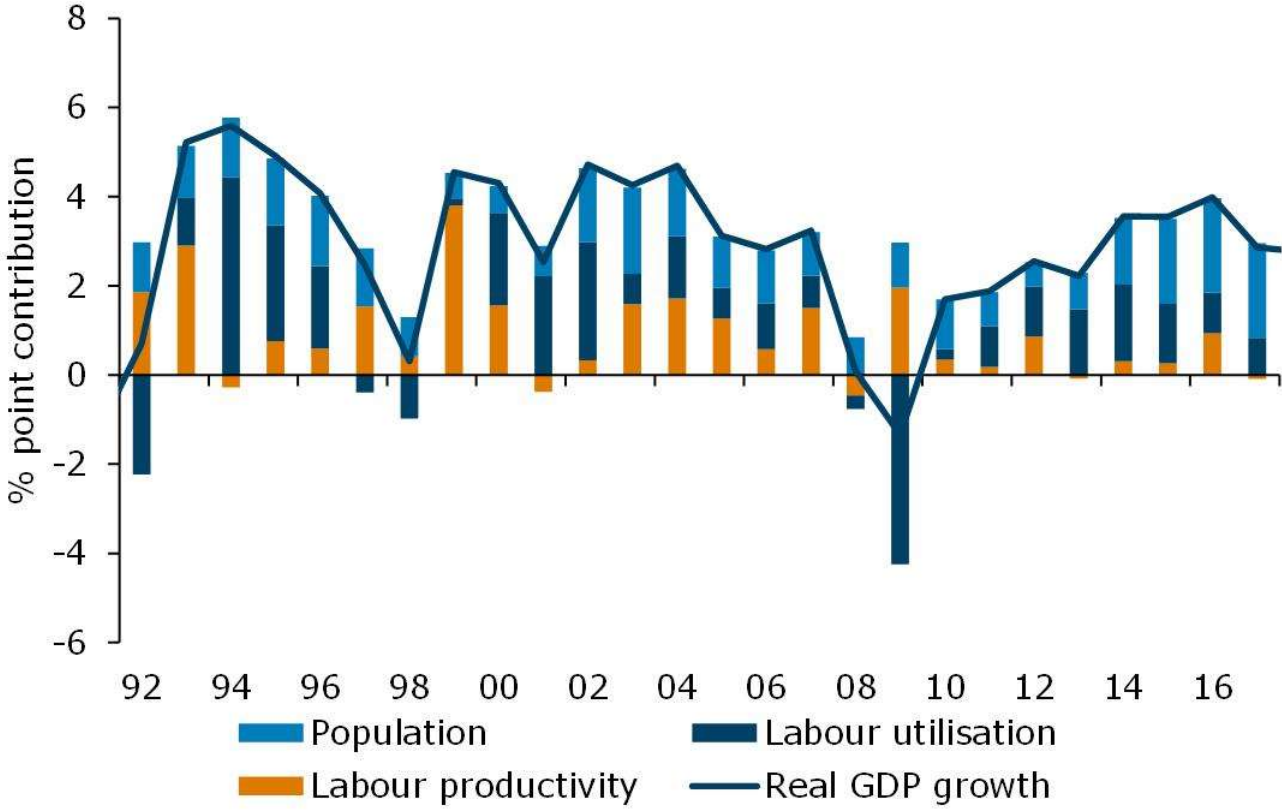
Source: ANZ, Roy Morgan

THE CASE FOR THE PROSECUTION: THE NEXT OCR MOVE IS A CUT



We've been growing the hard way

Contributions to economic growth

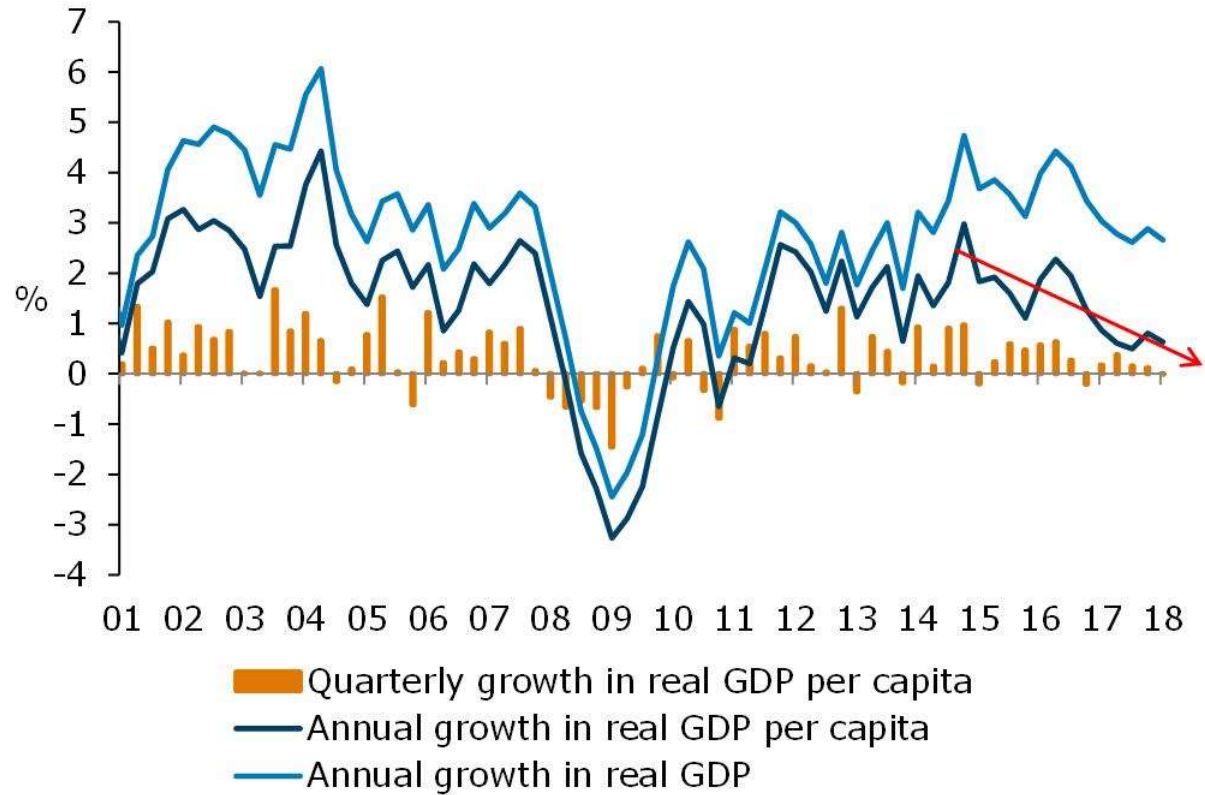


Sources: Statistics NZ, ANZ



A
slowdown
isn't new

Real GDP growth: headline and per capita

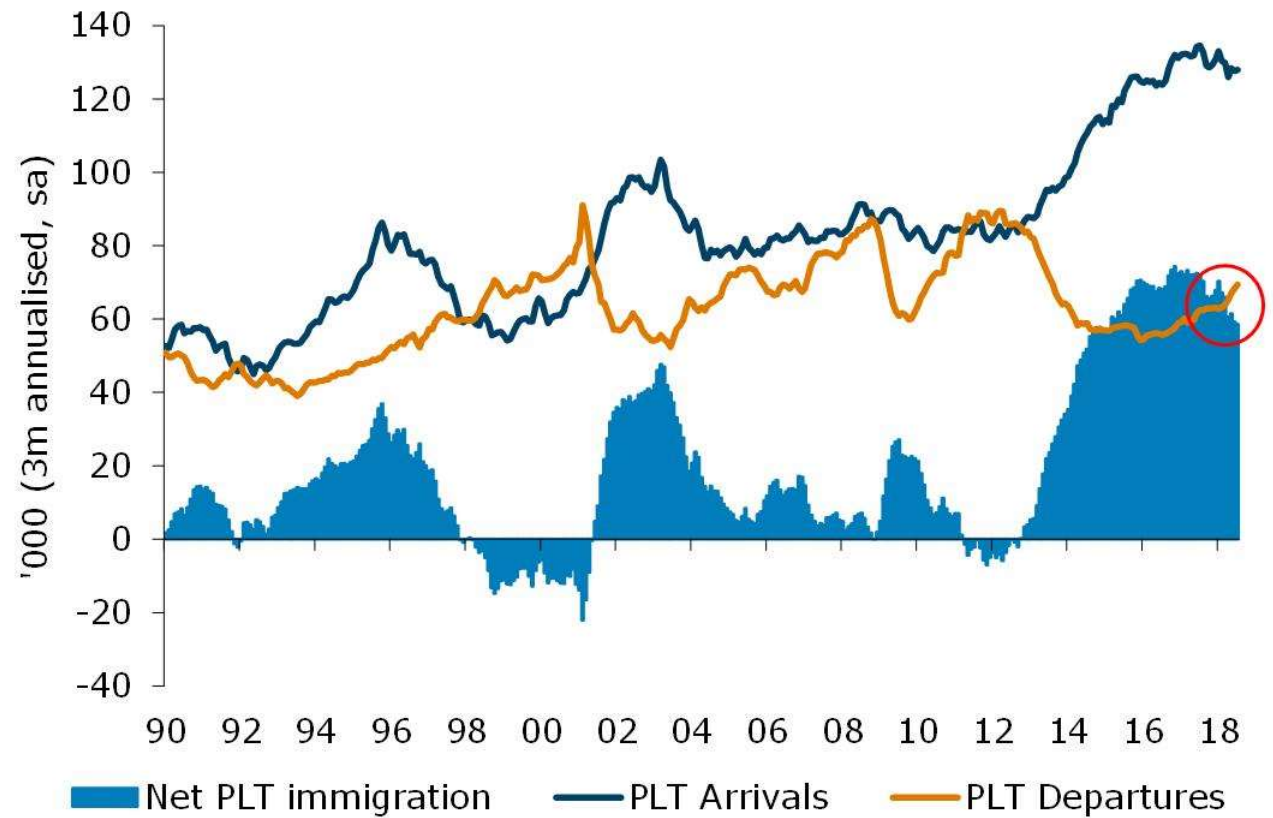


- Strong population growth has been flattering GDP growth for some time.
- If it goes, it will leave a growth hole.

Source: ANZ, Statistics NZ



Annual permanent and long-term migration

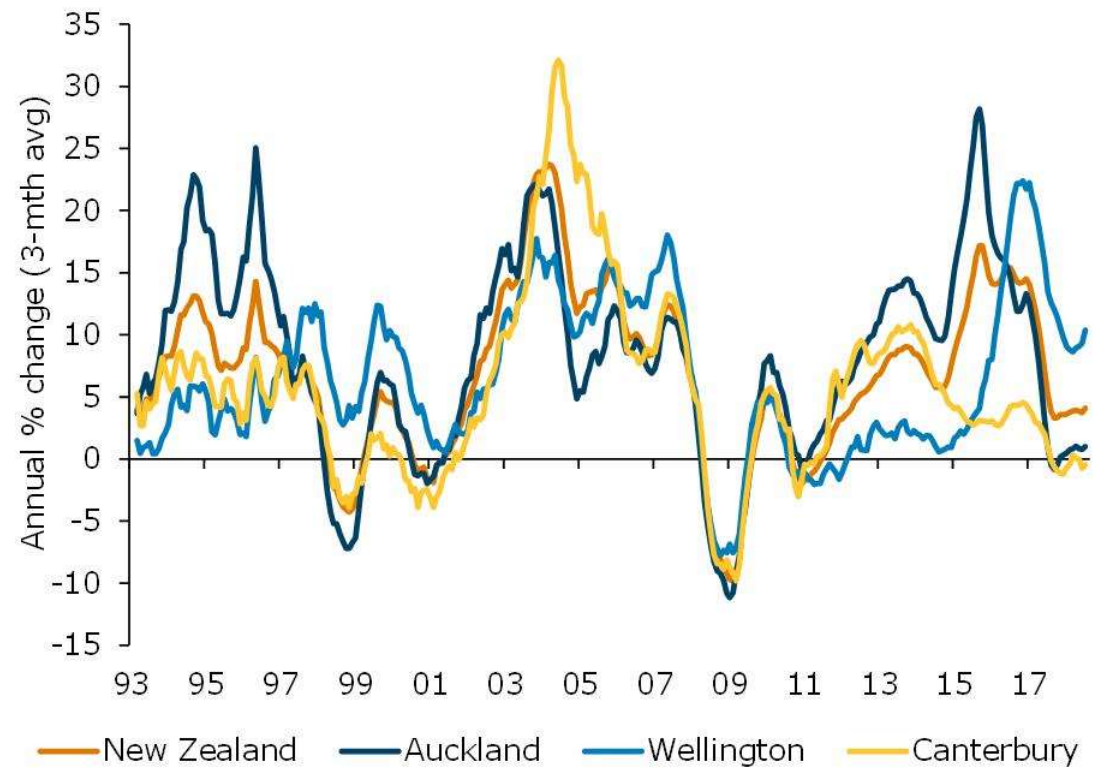


- Departures are worth watching

Source: ANZ, Statistics NZ

Party's
over

Regional house price inflation

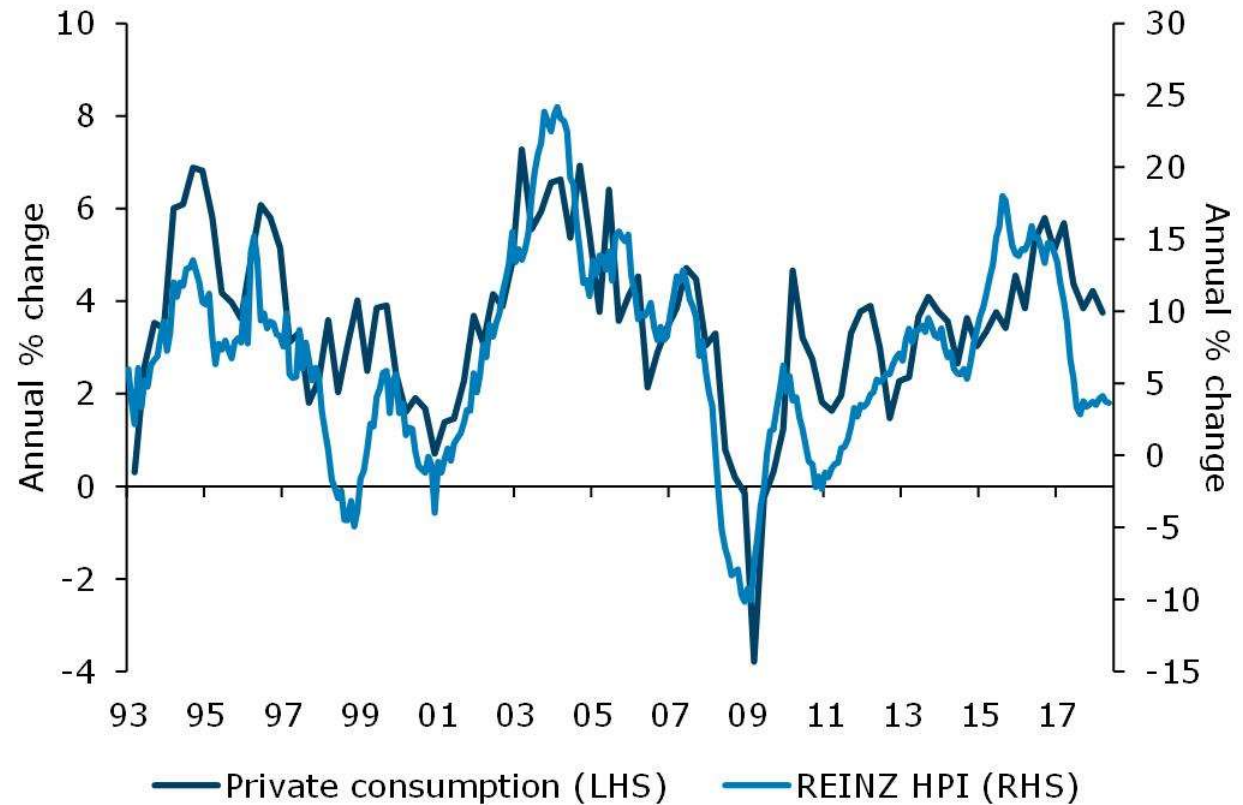


Source: REINZ

- Diverse but now cooling everywhere
- Government policies will keep the market on ice



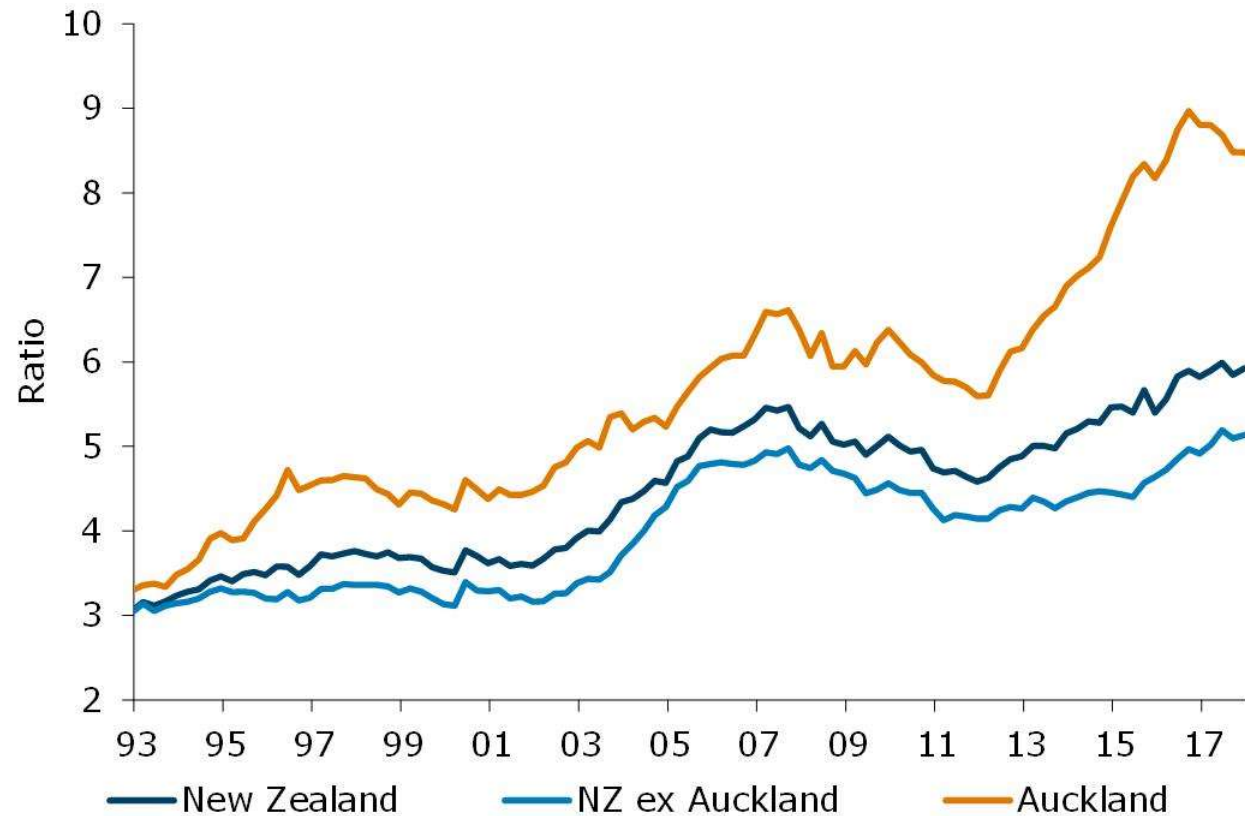
House price inflation versus consumption



- This time is different?
- Maybe, since the cause of the house price inflation slowdown is not higher interest rates.

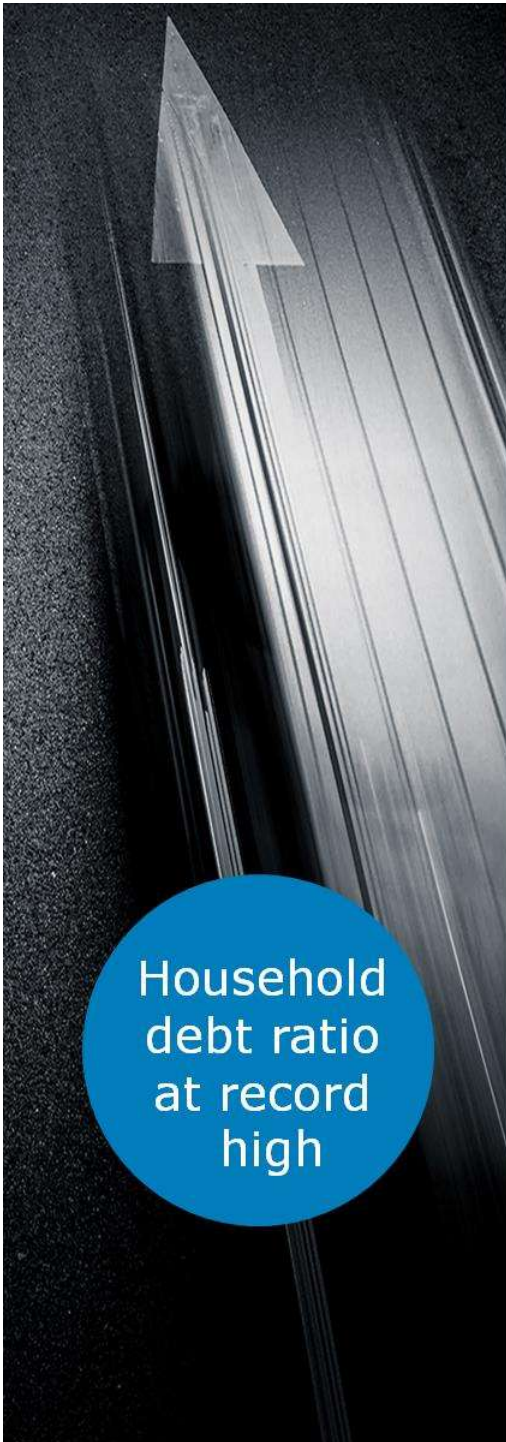
Pick the problem

Regional house price to income ratios



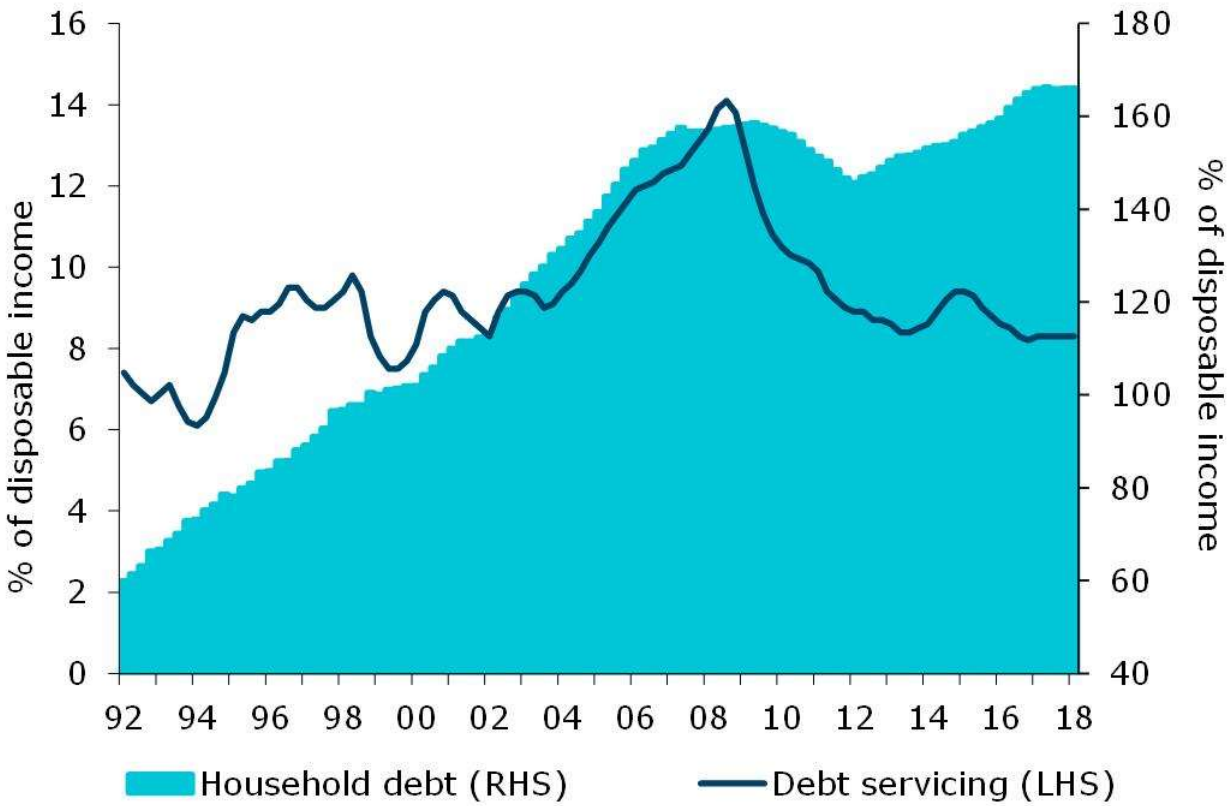
- Slight improvement in Auckland not enough

Source: REINZ, Statistics NZ, ANZ



Household debt ratio at record high

Household debt and serviceability



- A housing slowdown might hurt growth but it is probably not a bad thing in the bigger picture
- Some households would be very vulnerable if interest rates were to rise

Source: ANZ, RBNZ, Statistics NZ

The credit cycle matters

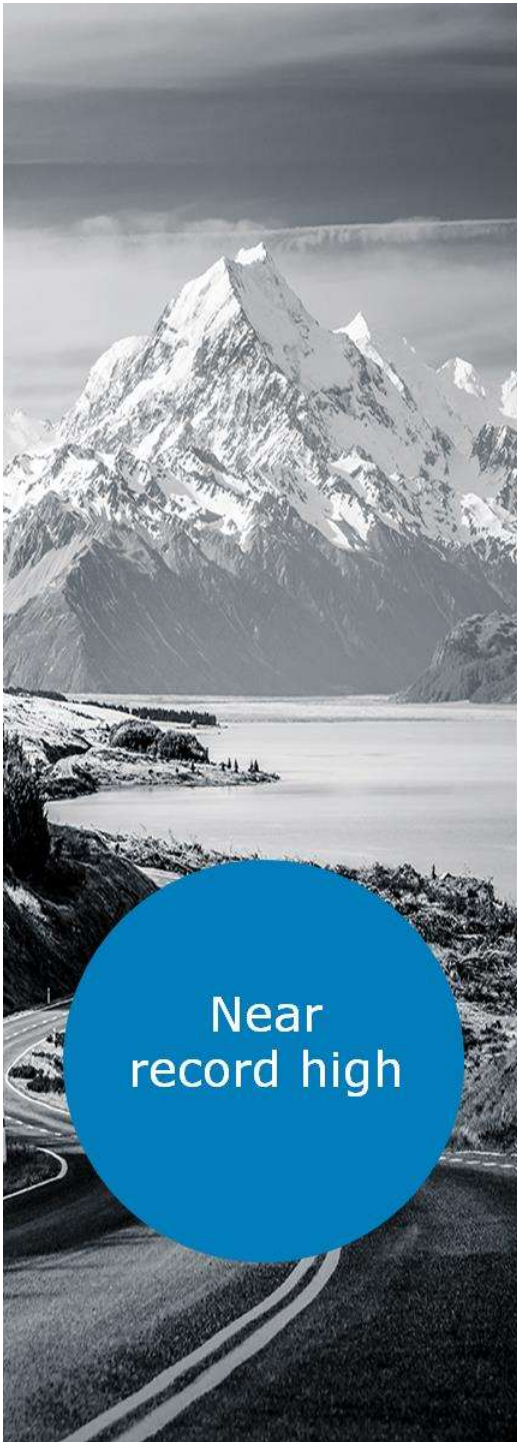
Business outlook: ease of credit



- Availability of funding has been a handbrake

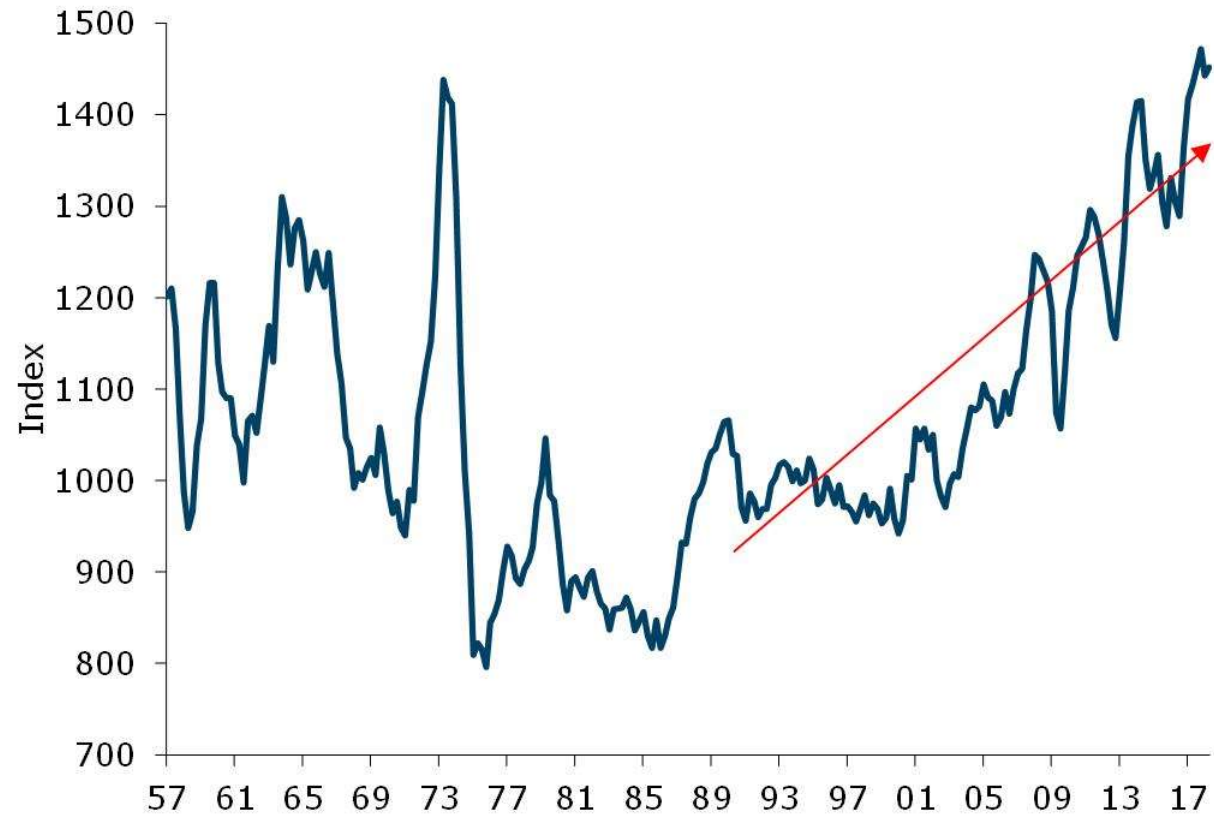
Source: ANZ Research

THE CASE FOR THE DEFENCE: PULL YOUR SOCKS UP



Near
record high

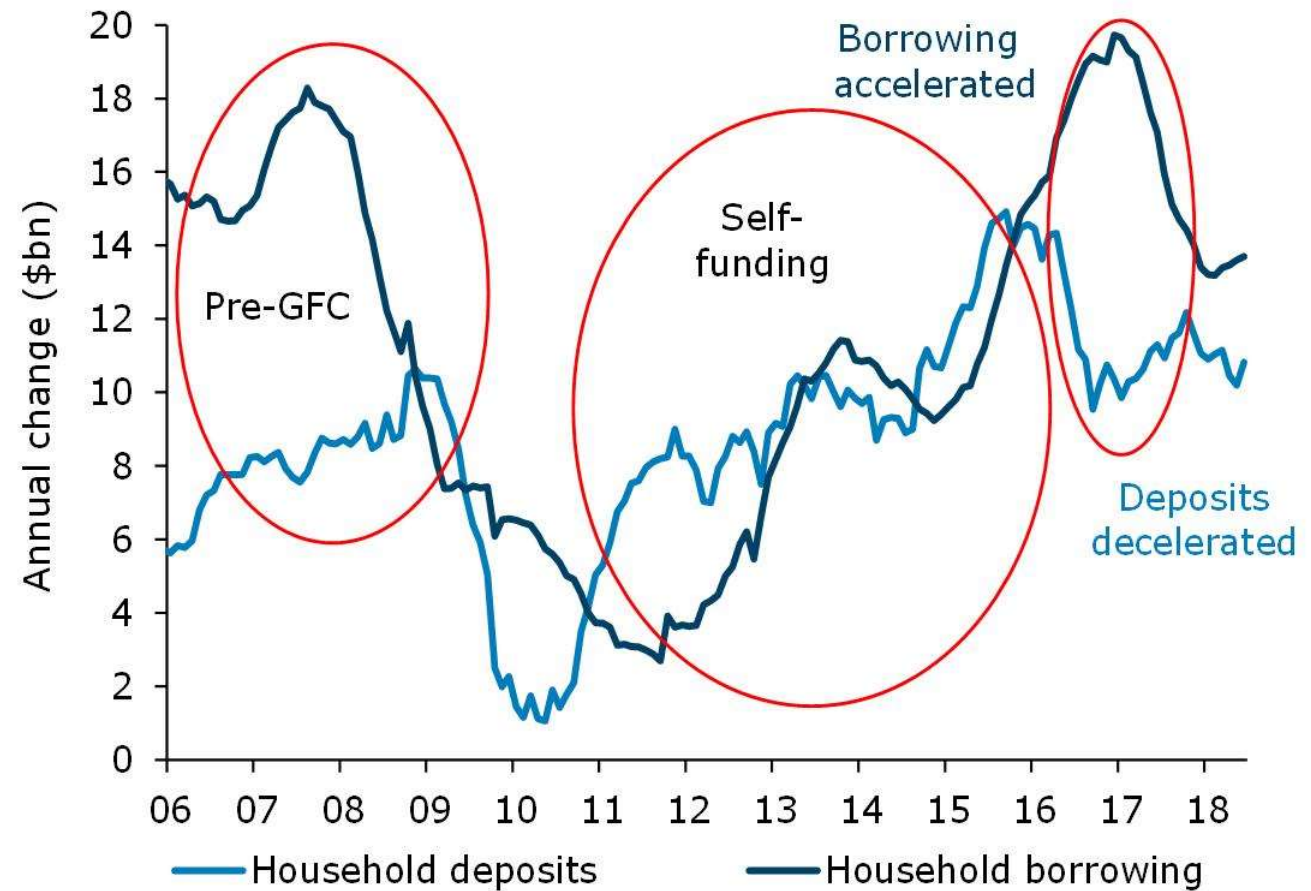
New Zealand terms of trade



- Much more broad-based than previous peaks



Bank funding and claims growth



- Banks in a better position to open the lending taps

Source: ANZ, RBNZ



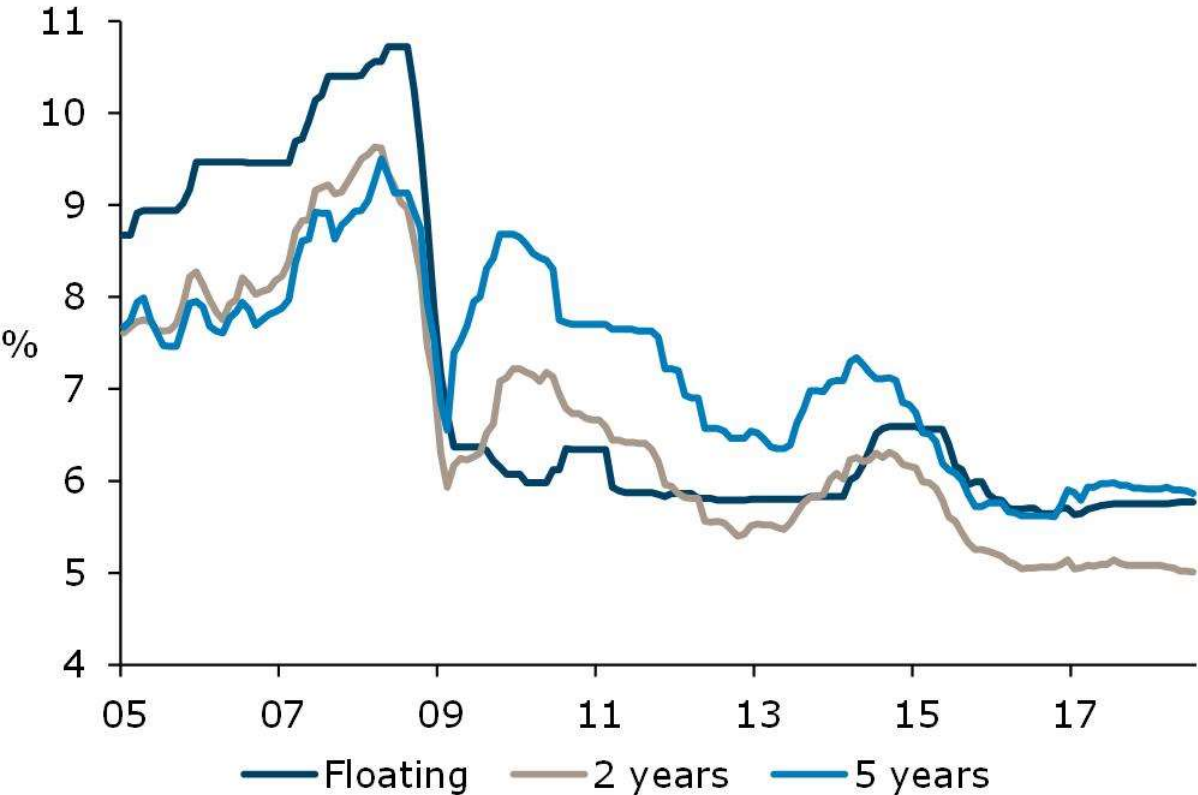
NZD is doing its job



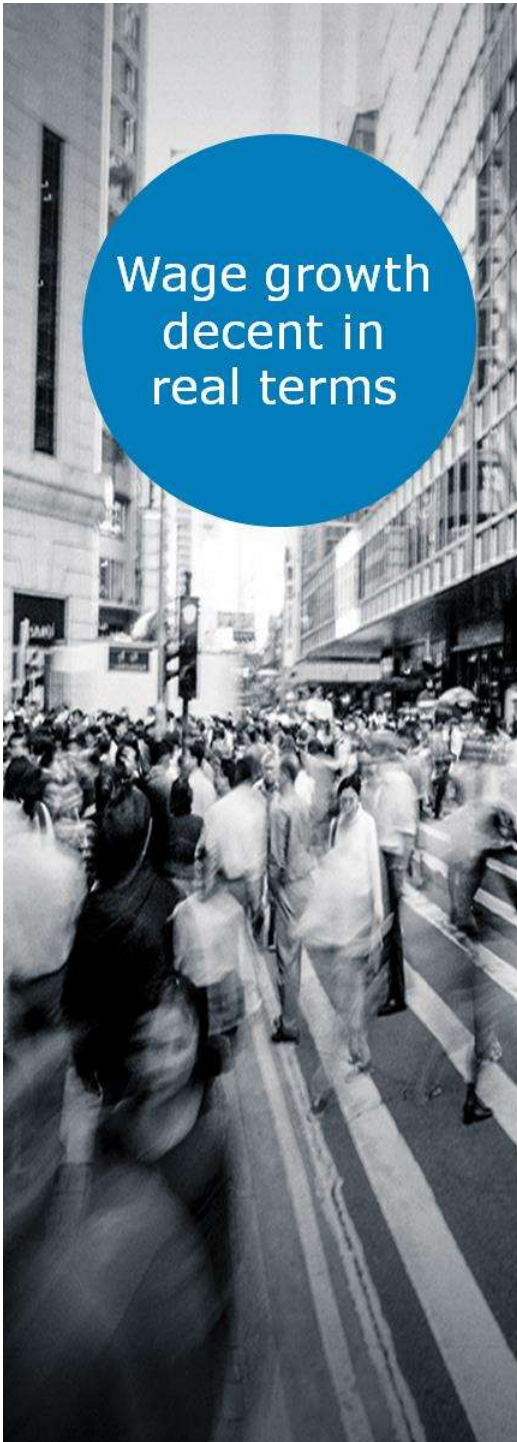
Source: GDT, Bloomberg, ANZ Research



Cheap loans

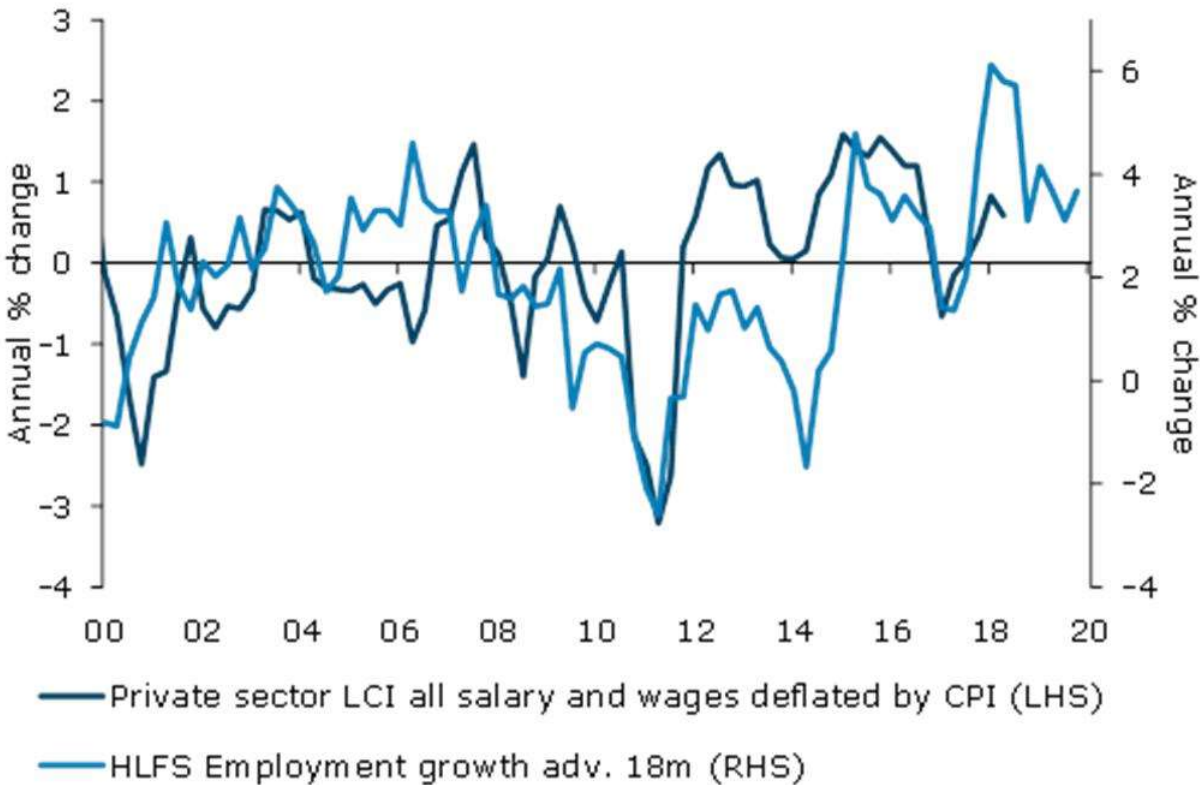


Sources: RBNZ, ANZ Research



Wage growth
decent in
real terms

Employment growth and real wage inflation

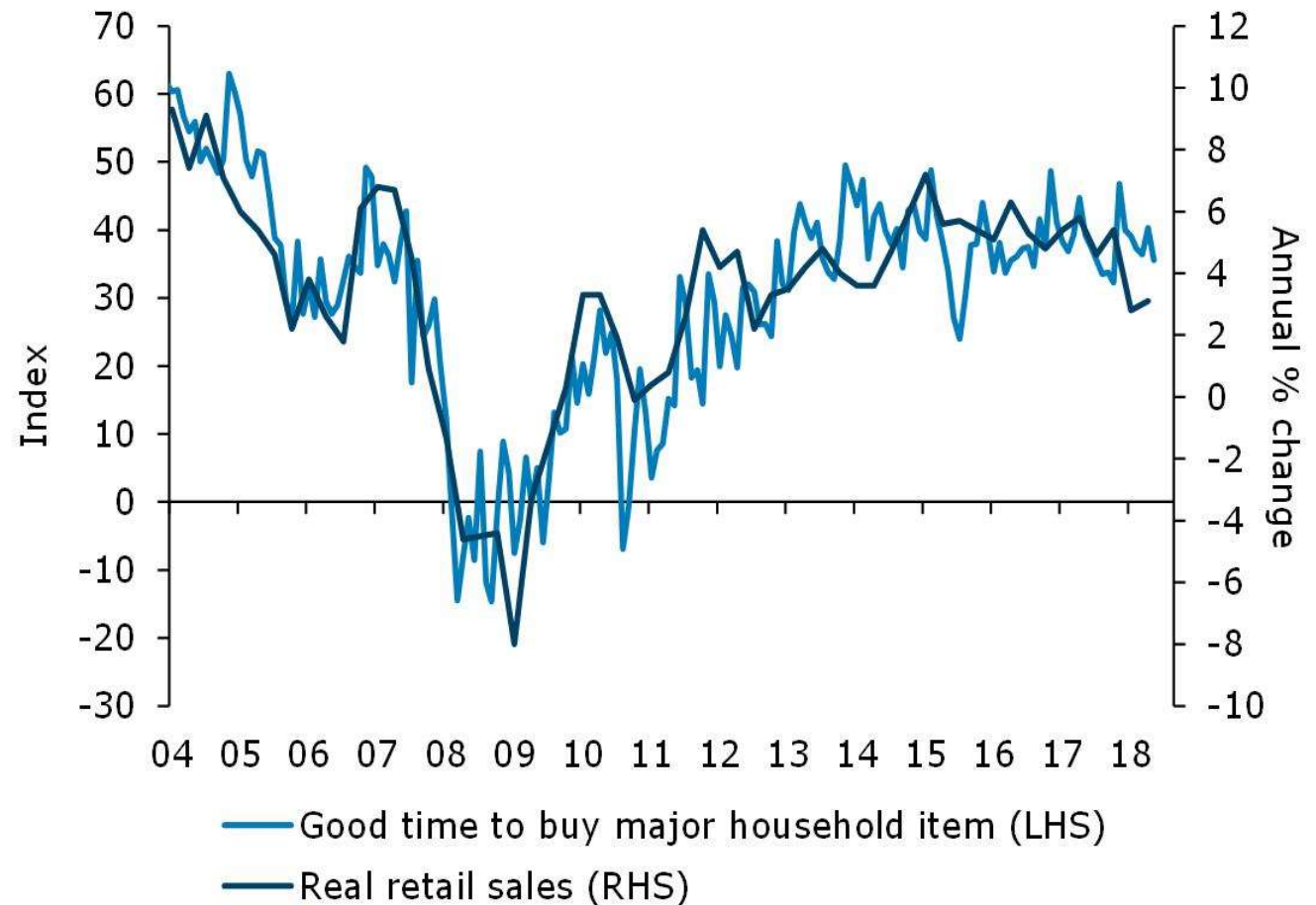


- Real wage growth has been quite reasonable in real terms due to very low CPI inflation
- Not matched by productivity growth

Sources: Statistics NZ, ANZ Research

Still
spending

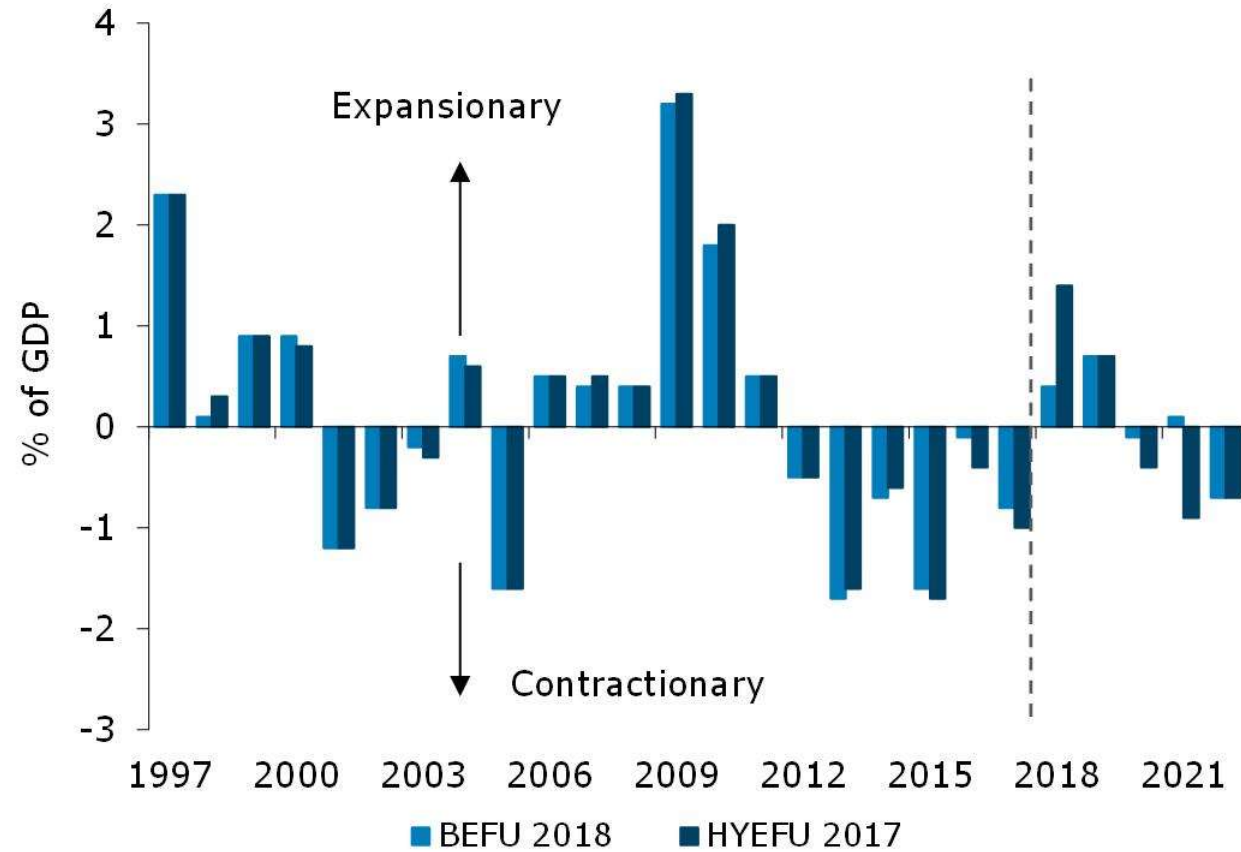
ANZ-Roy Morgan consumer confidence: good time to buy major household item vs. real retail sales



Source: Roy Morgan, Statistics NZ, ANZ Research
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Biggest fiscal impulse since 2010 hitting now



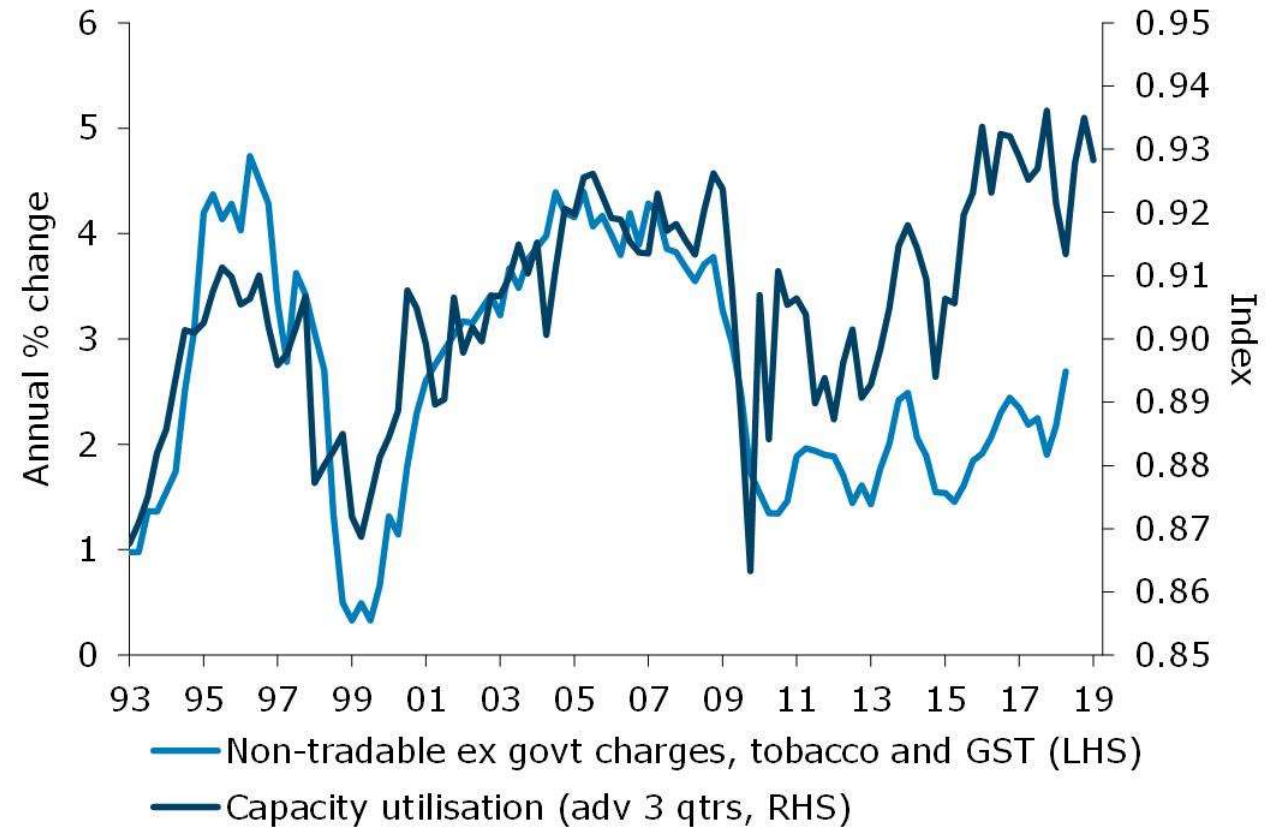
Source: Treasury, Statistics NZ, ANZ Research
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THE BACKDROP TO THE DEBATE:

- The inflation outlook**
- Structural metrics**
- The global situation**

Where's the inflation?

Capacity indicators and inflation

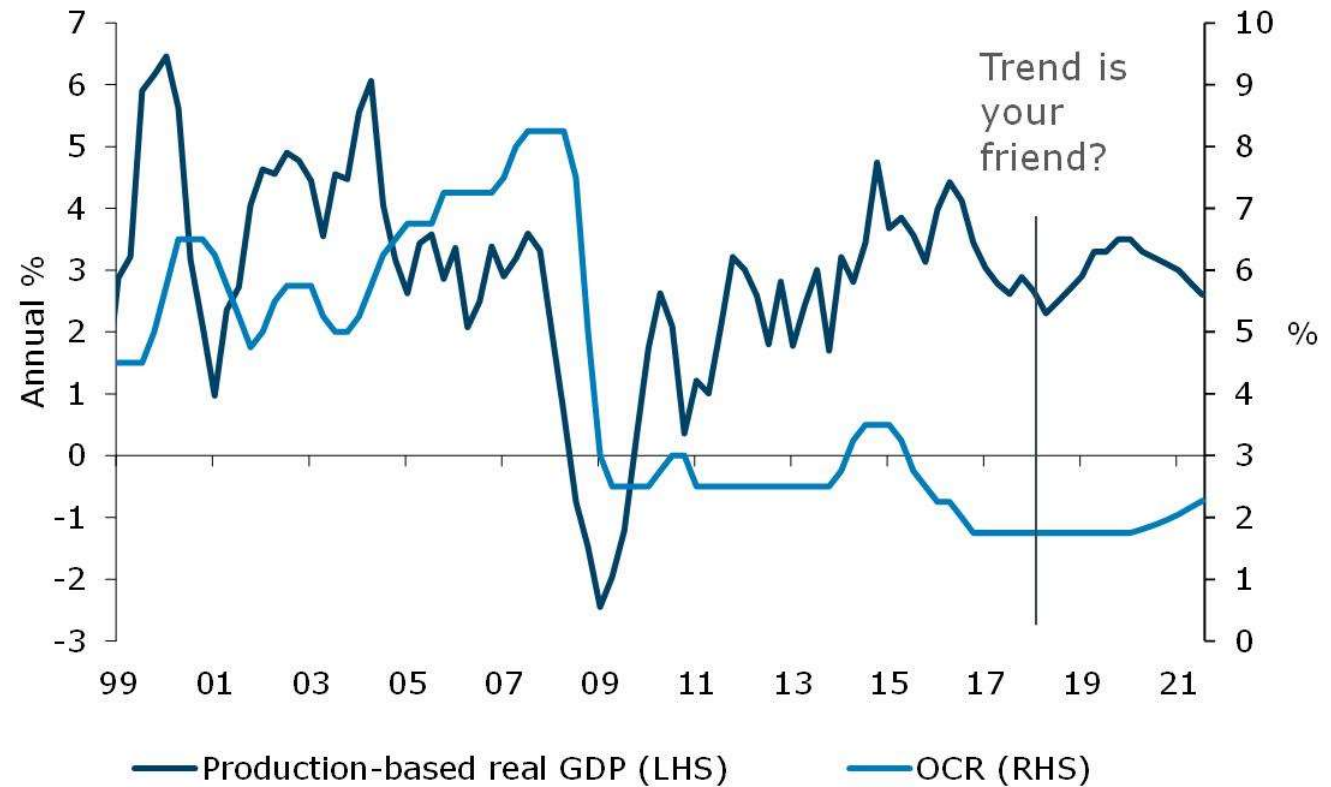


- The inflation process has changed in New Zealand just as in many other countries

Source: ANZ, QSBO, Statistics NZ

Reserve Bank on hold

RBNZ forecasts from August MPS

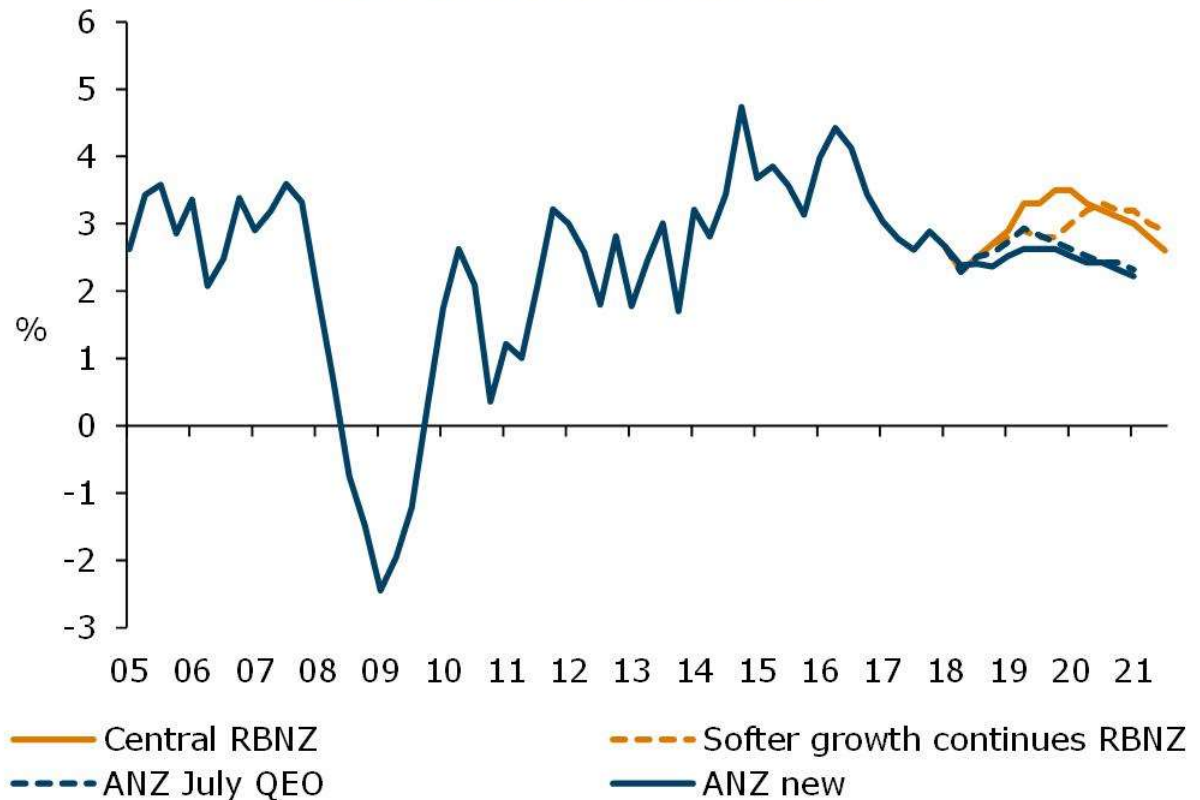


- Credit doesn't get much cheaper. RBNZ not expecting to lift the OCR until 2020.

Source: RBNZ, ANZ Research

The alternative scenario

GDP growth forecasts



- Growth just 0.7% lower by end 2019 is worth 100bp of cuts in the alternative scenario.
- It doesn't seem the RBNZ is confident of getting inflation up in a sustained fashion



She'll
be right

Ten years of near-zero interest rates and quantitative easing have pushed up global asset valuations and debt levels and distorted markets.

Now:

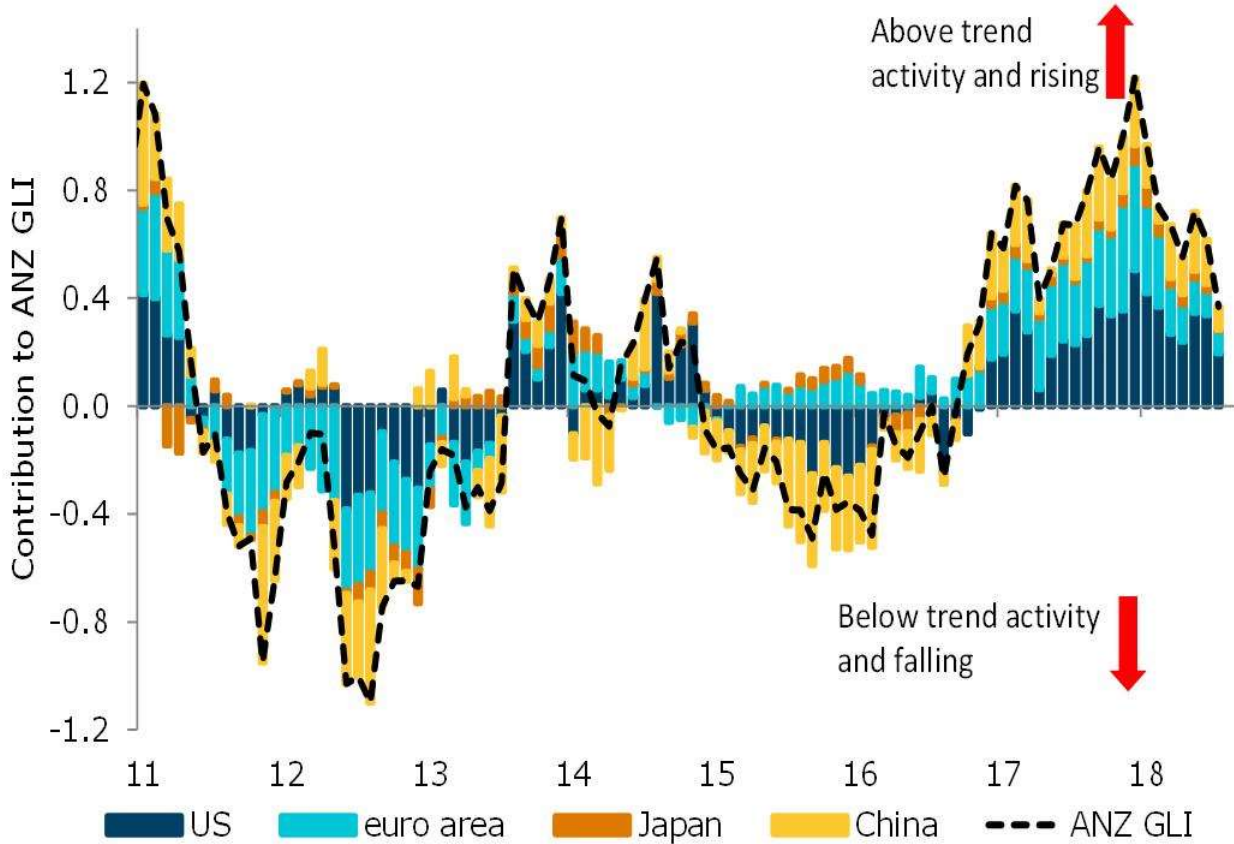
- The Fed is in steady retreat. Global liquidity is drying up
- Global debt is unprecedented
- Trade wars: China slowing
- Emerging markets wobbly – contagion via unhedged offshore debt
- Mispriced risk: euro area leveraged loans, US subprime auto debt, US leveraged loans
- Pockets of stress: US small bank credit card defaults
- The maths don't work, it just makes it worse: sovereign debt (France, Italy, US), pension funds (US)
- In times of crisis 'diversified' portfolios aren't
- But the party may roll on a long time yet



One of the longest US expansions on record

But momentum has eased

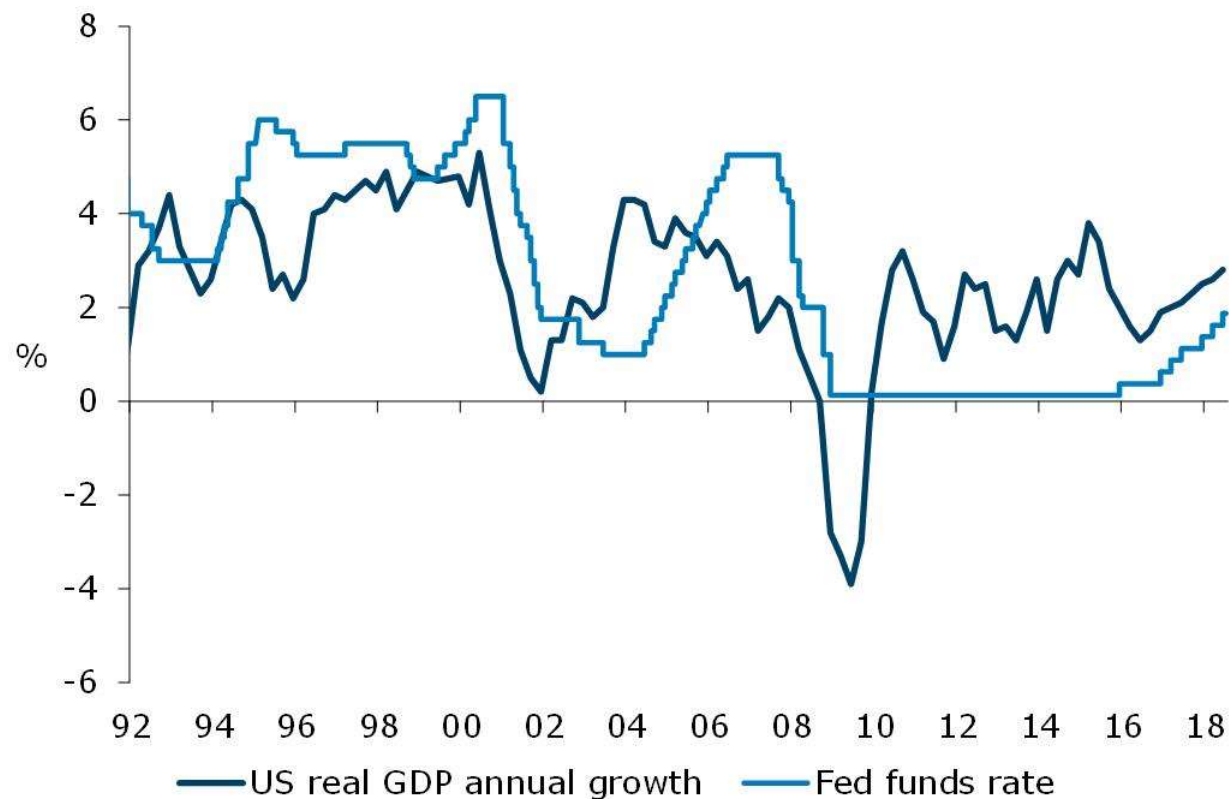
ANZ Global Leading Index



Source: Bloomberg, Markit, ANZ Research

It's hardly
been business
as usual

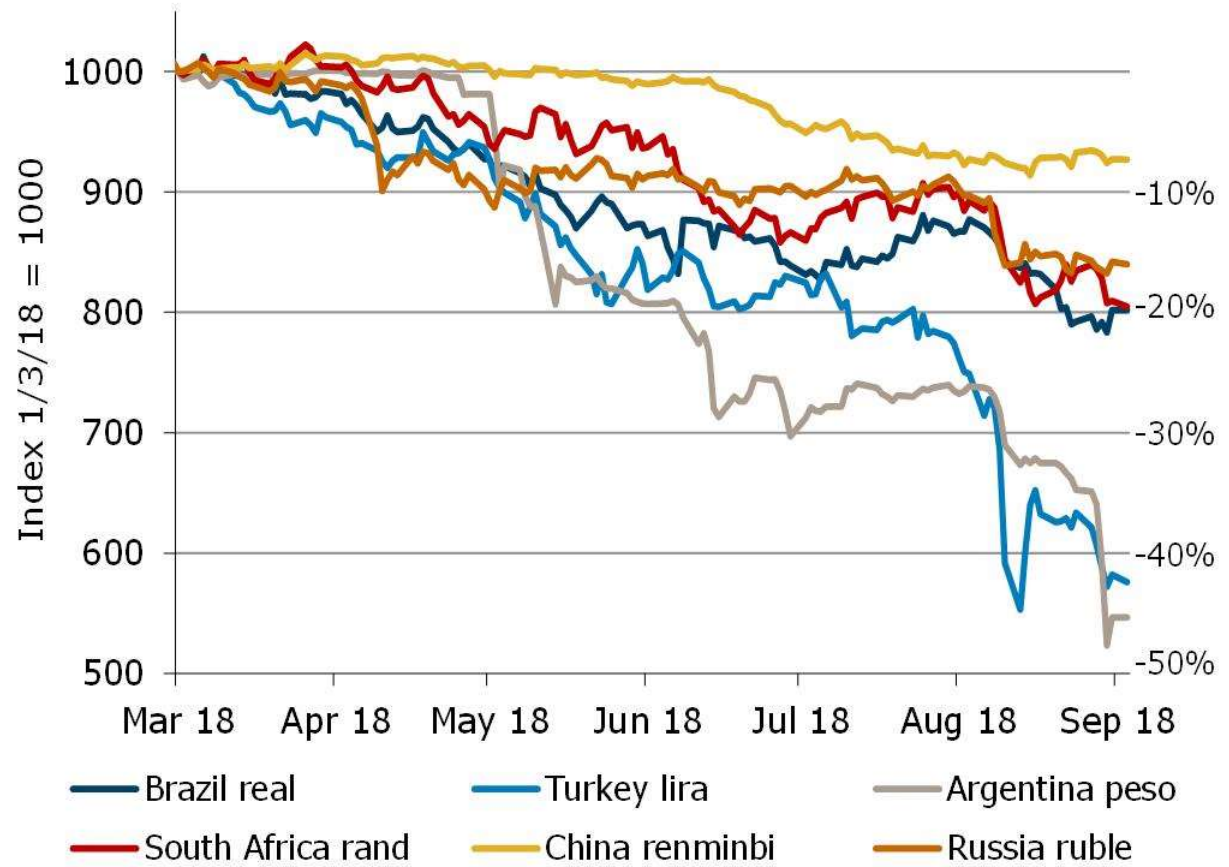
US Fed Funds rate vs. US real GDP growth



Source: Bloomberg, ANZ Research

Wobbly

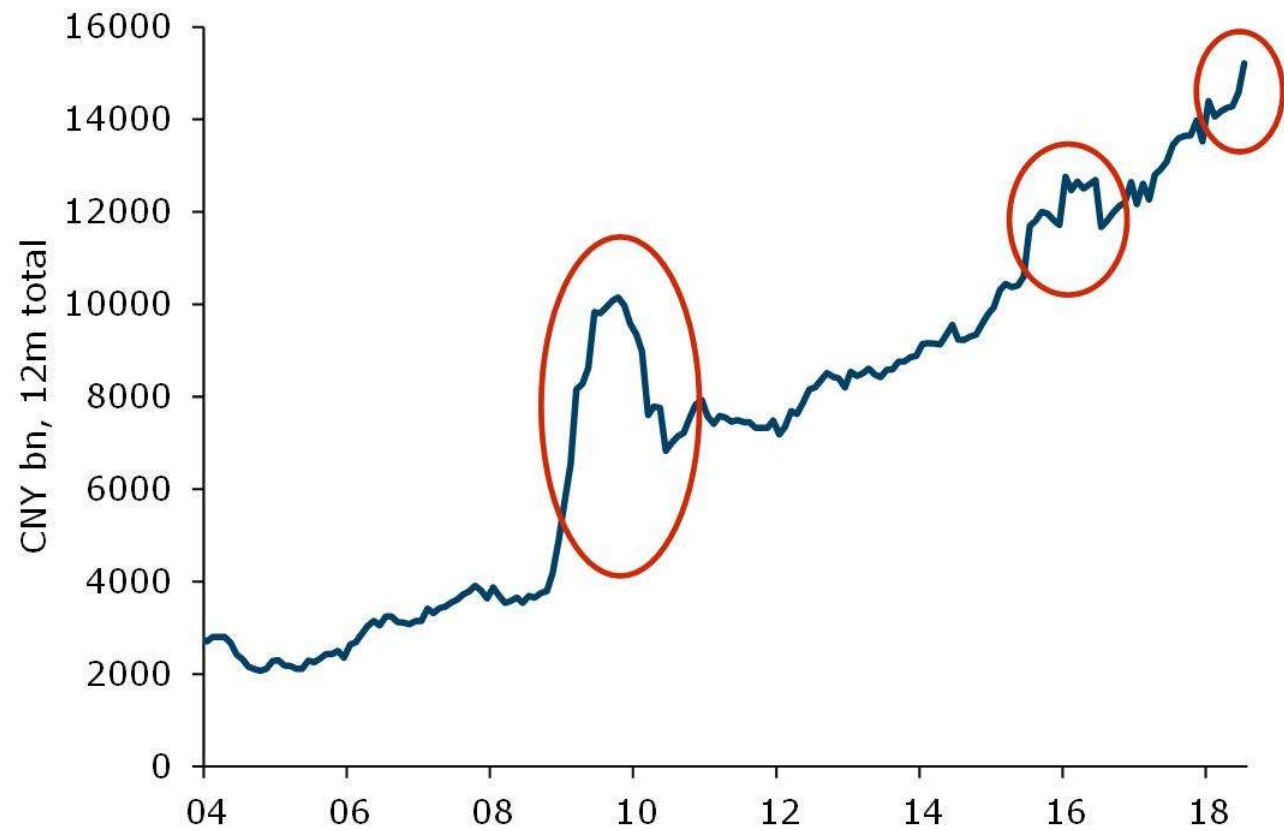
Emerging market currencies vs USD



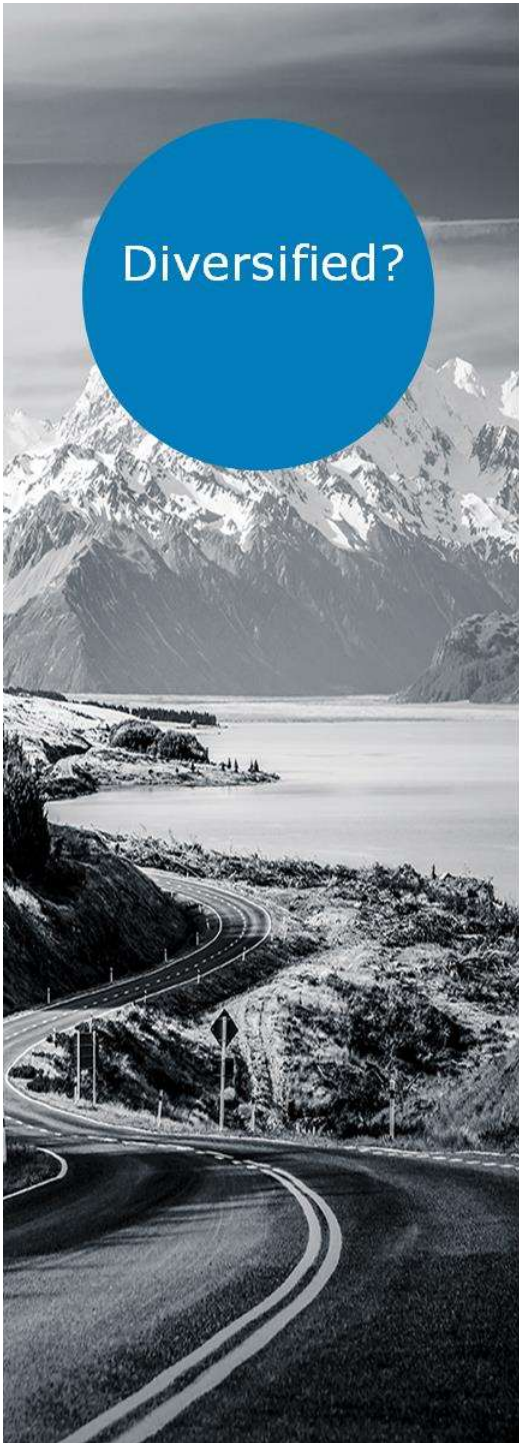
Source: Bloomberg, ANZ Research

Foot back
on the
accelerator

China new yuan loans

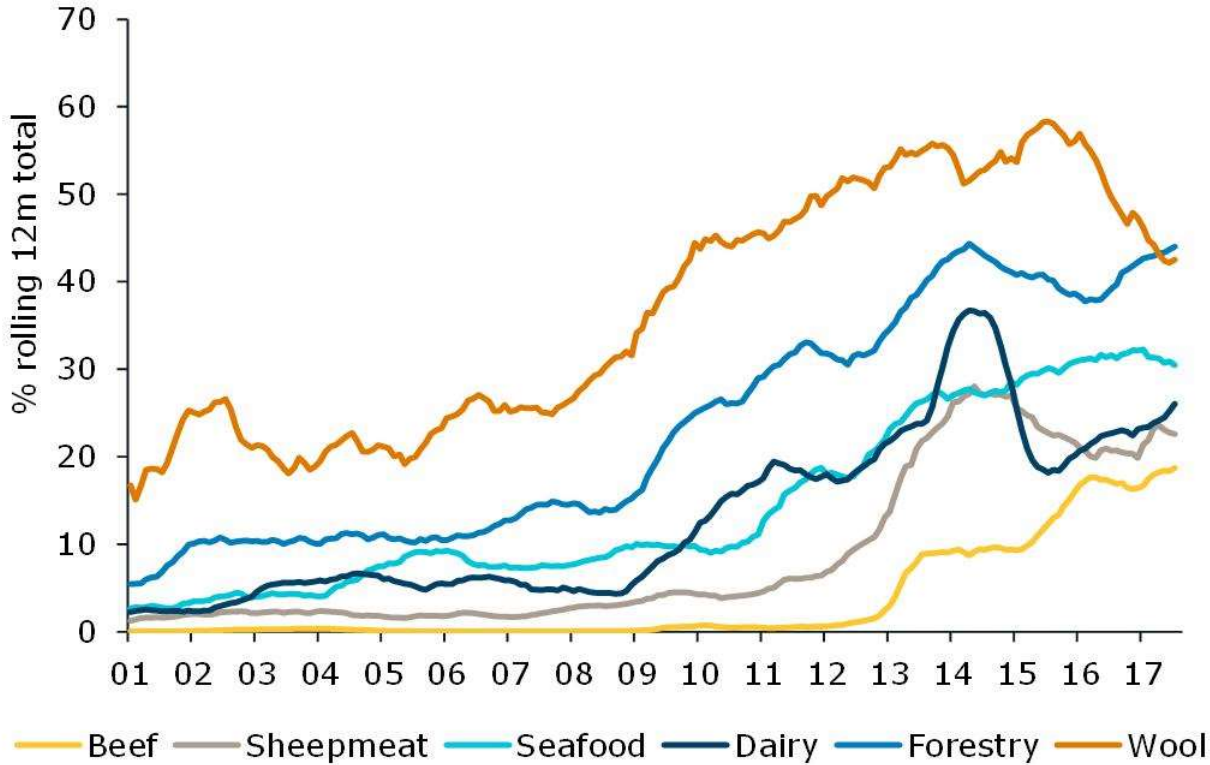


Source: Bloomberg, ANZ Research



Diversified?

Share of export earnings from China



Source: ANZ, Statistics NZ

All up ...

- 1 The NZ economy is doing some harder yards, with downside risks to growth.
- 2 Solid household income growth and fiscal stimulus should support.
- 3 If the data flow corroborates the weaker business survey the next OCR move will be a cut.
- 4 Global risks are more significant than any near-term dent in growth we may talk ourselves into.

THANK YOU

Presented by Sharon Zollner



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