

Fiscally sound and seeking growth

...we need more infrastructure.

Jarrold Kerr
Chief Economist

Jeremy Couchman
Senior Economist

Connect with KiwiEconomics on:

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 kiwieconomics@kiwibank.co.nz

Everything we need to know...

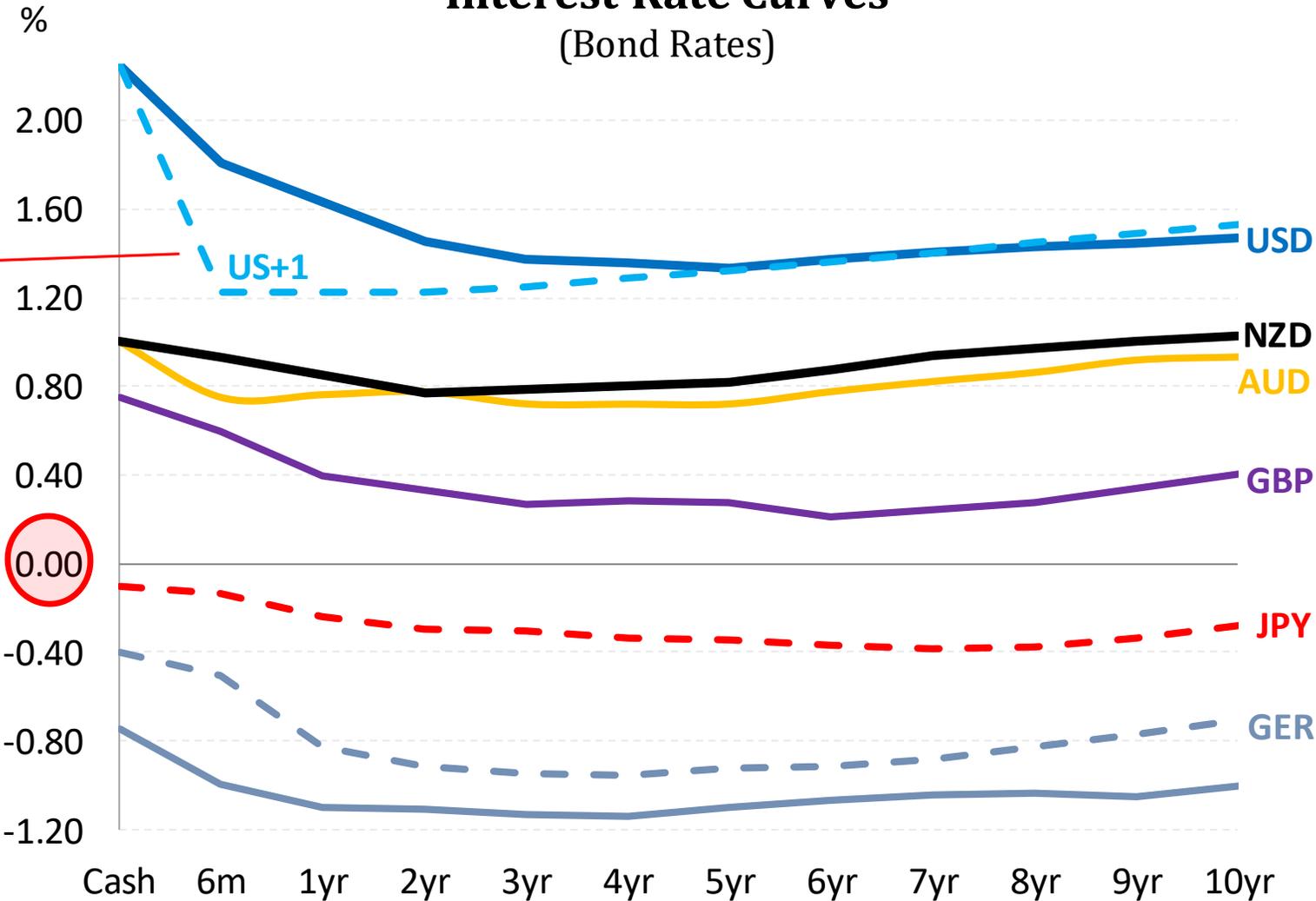


Interest rates are low, very low, and will remain very low for a very long time.

Interest Rate Curves (Bond Rates)

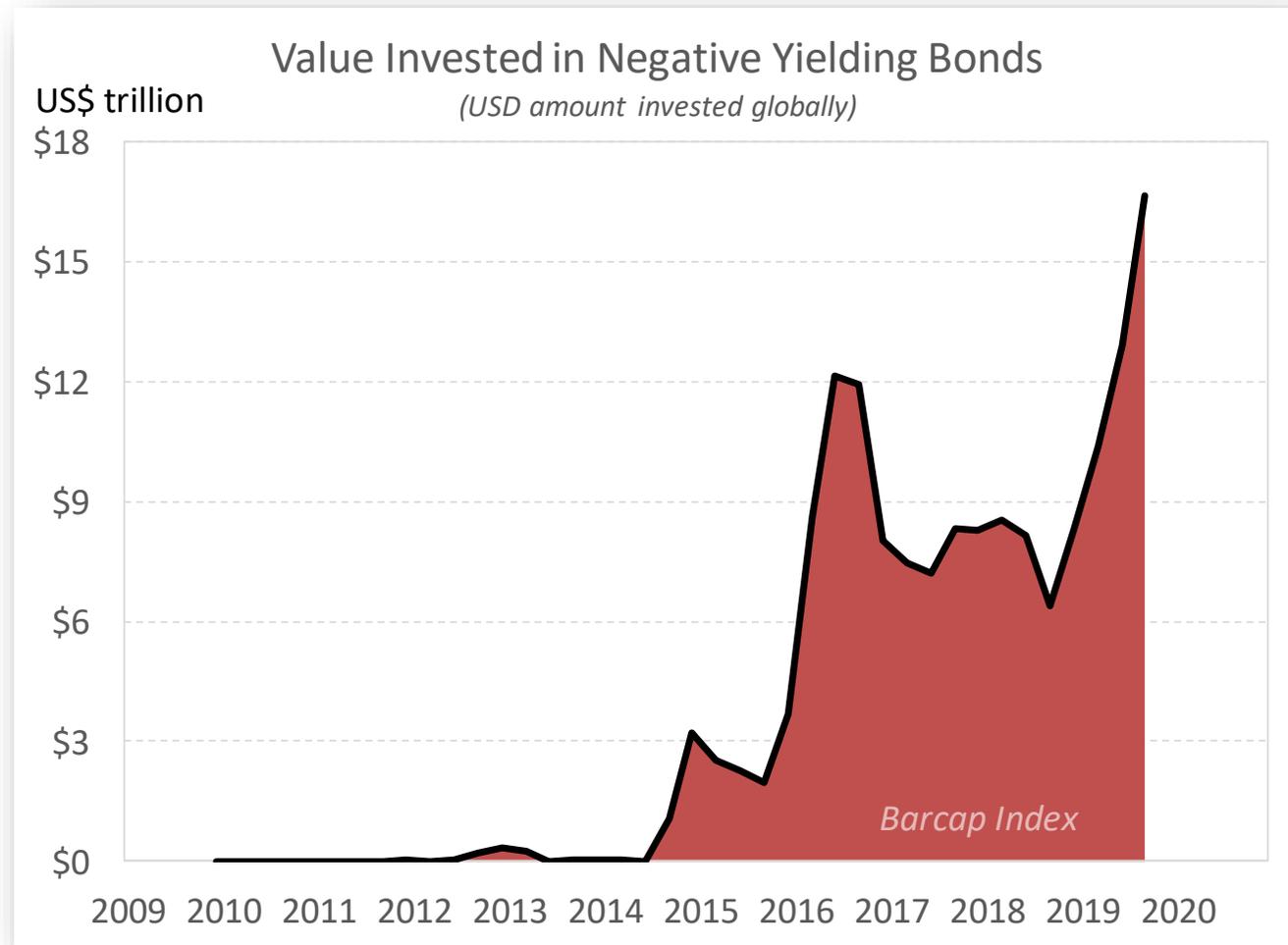
Rate cuts are priced

We're below 1%!

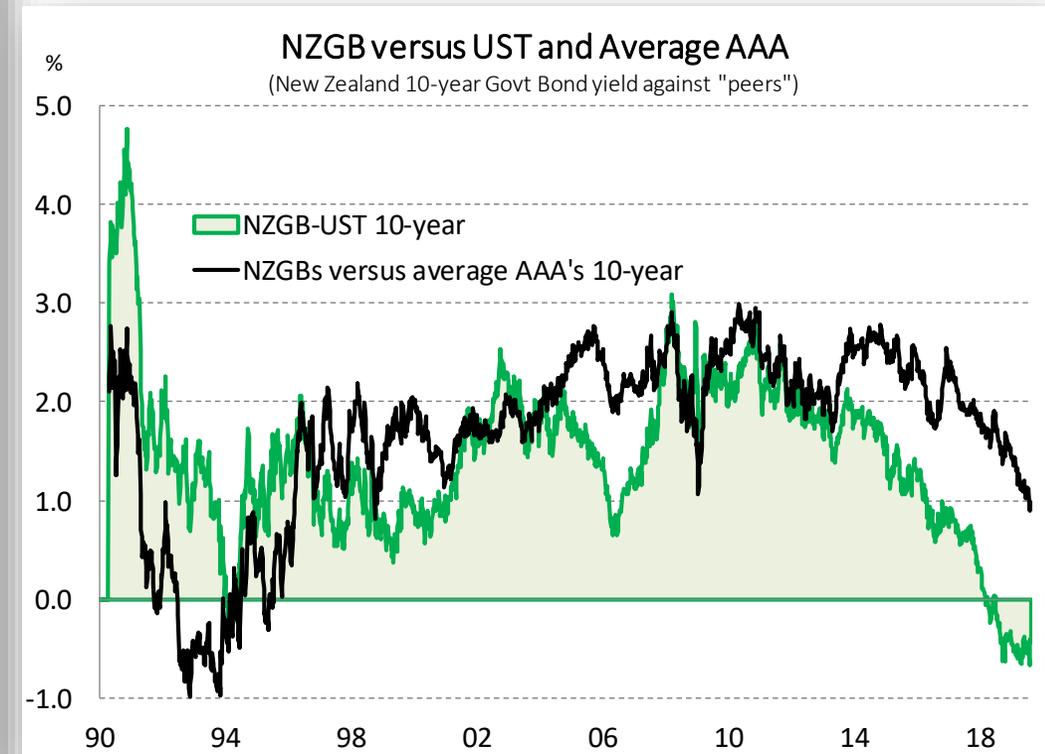


Term interest rates are falling... fast.

Over \$16 TRILLION is invested in bonds with NEGATIVE interest rates.



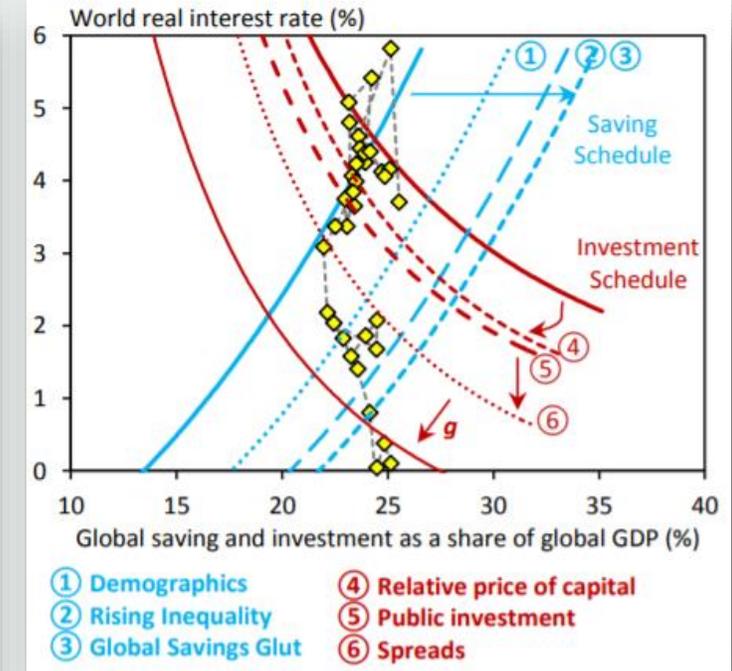
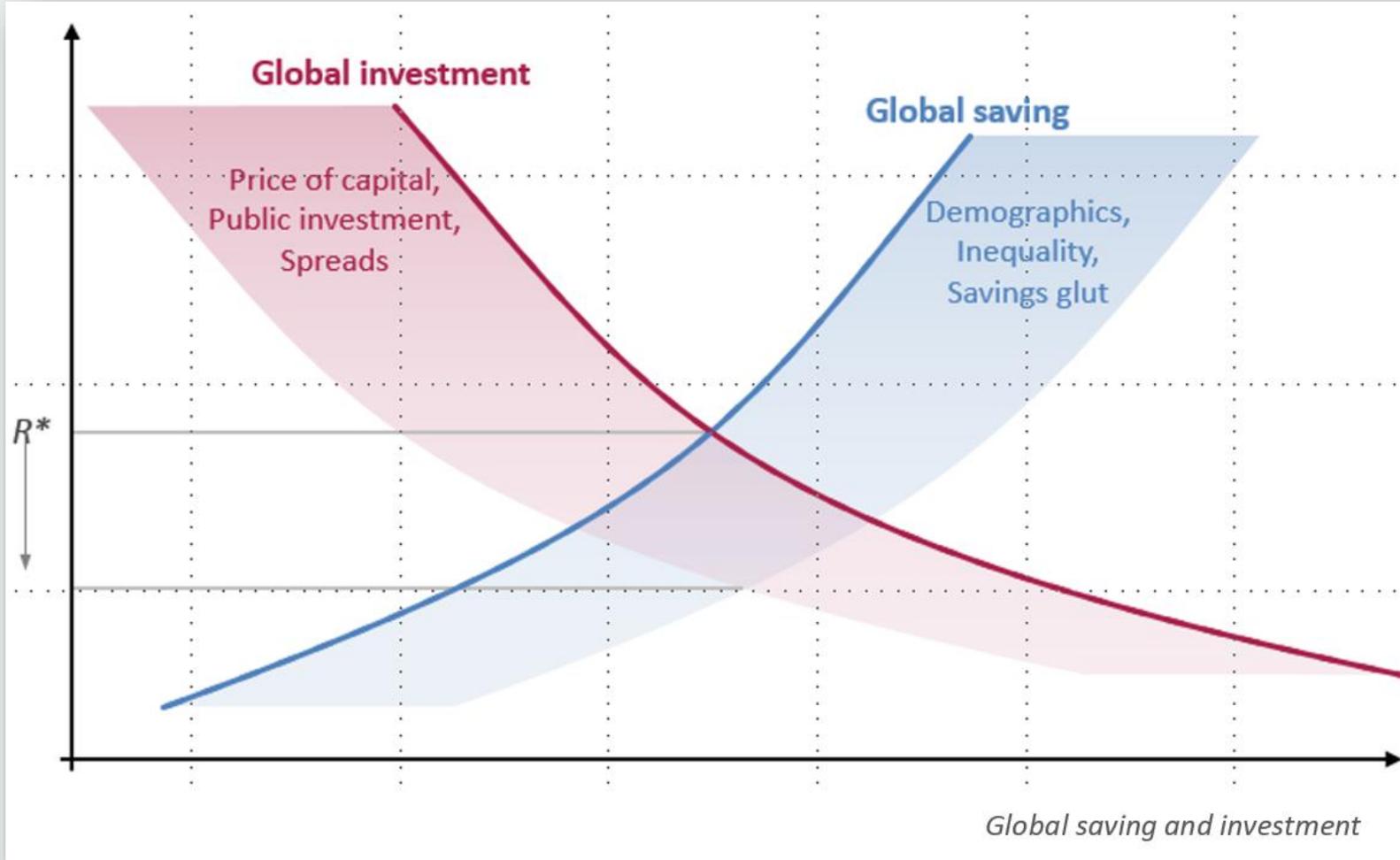
KIWI bonds are still attractive.



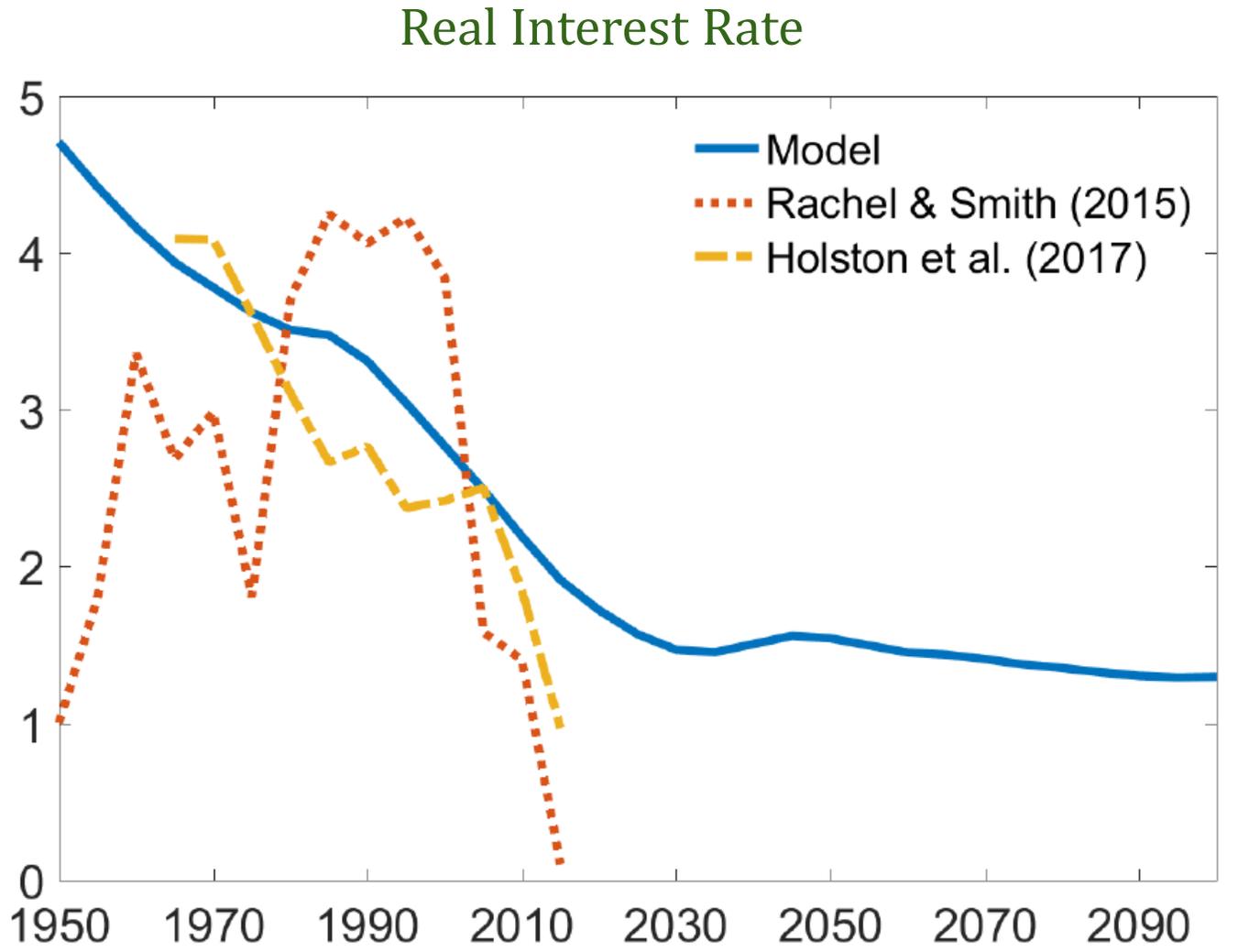
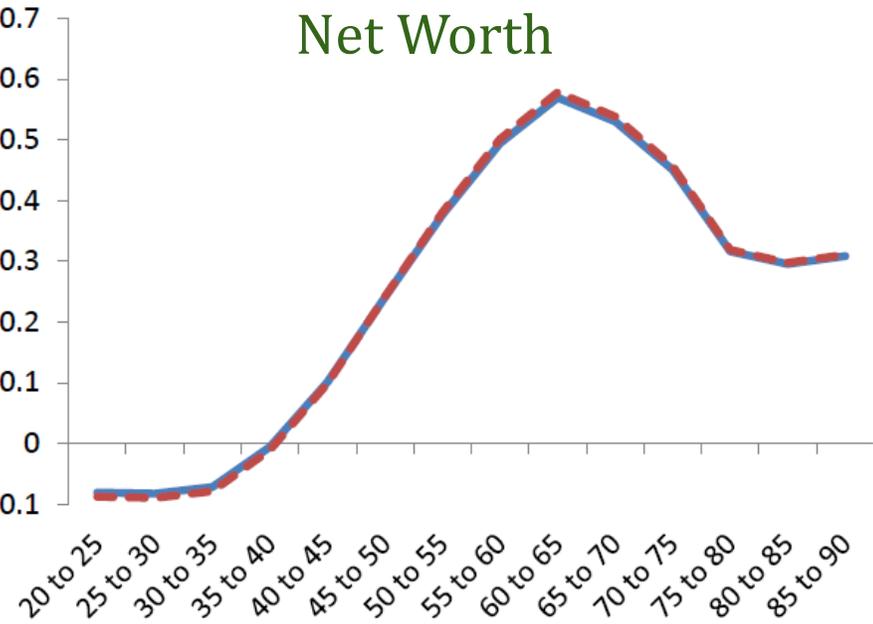
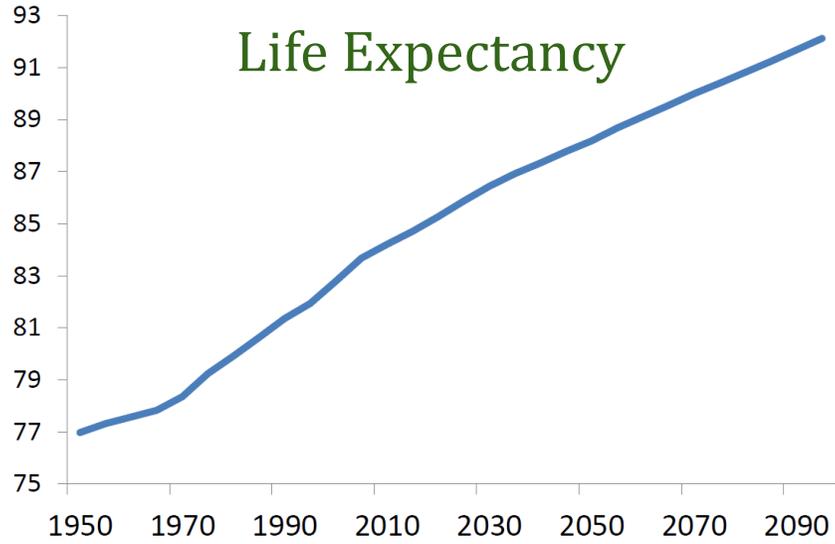
There are 5 reasons for record lows

- rates:**
1. Demographics
 2. Inequality
 3. Populism
 4. Disruption
 5. Fiscal
austerity

The secular decline in real interest rates, globally.



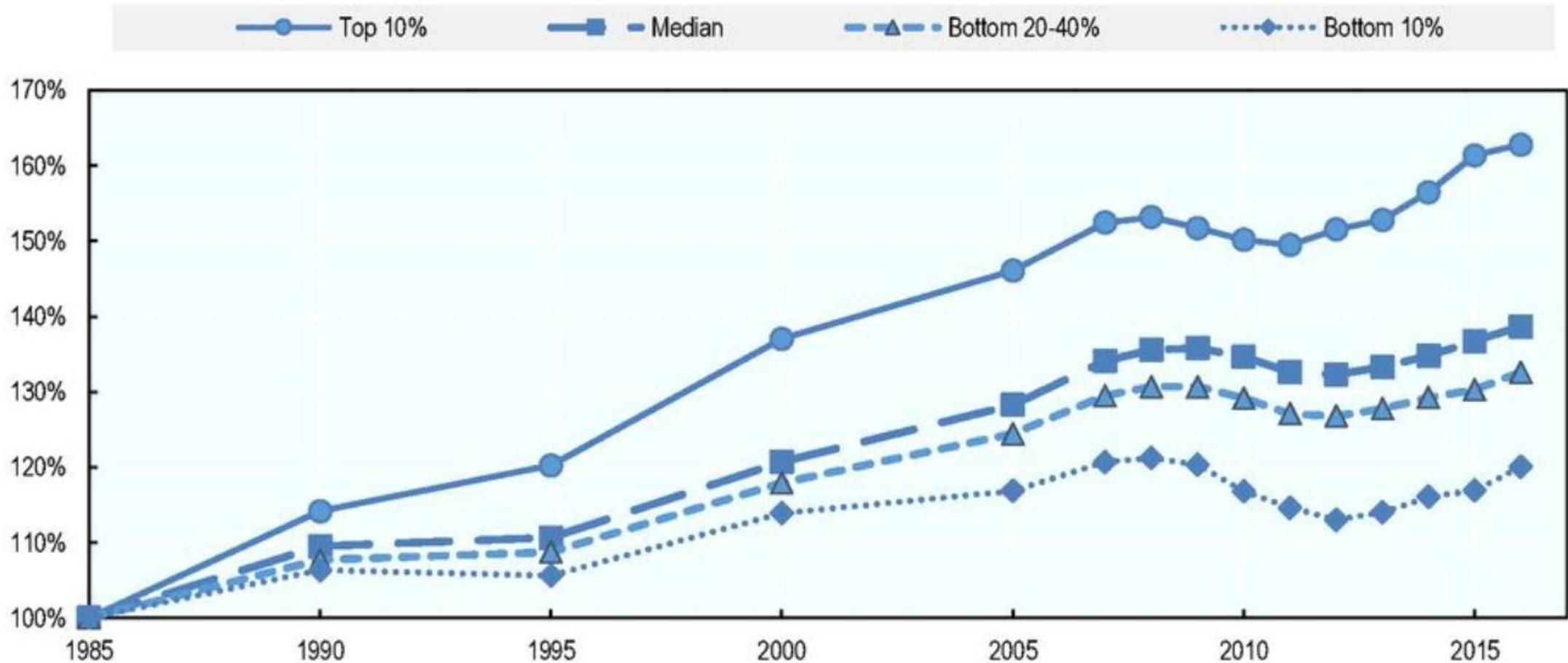
#1 The tectonic shift in demographics



#2 The rise in inequality is enraging many

Weak wages growth, especially for the lower deciles.

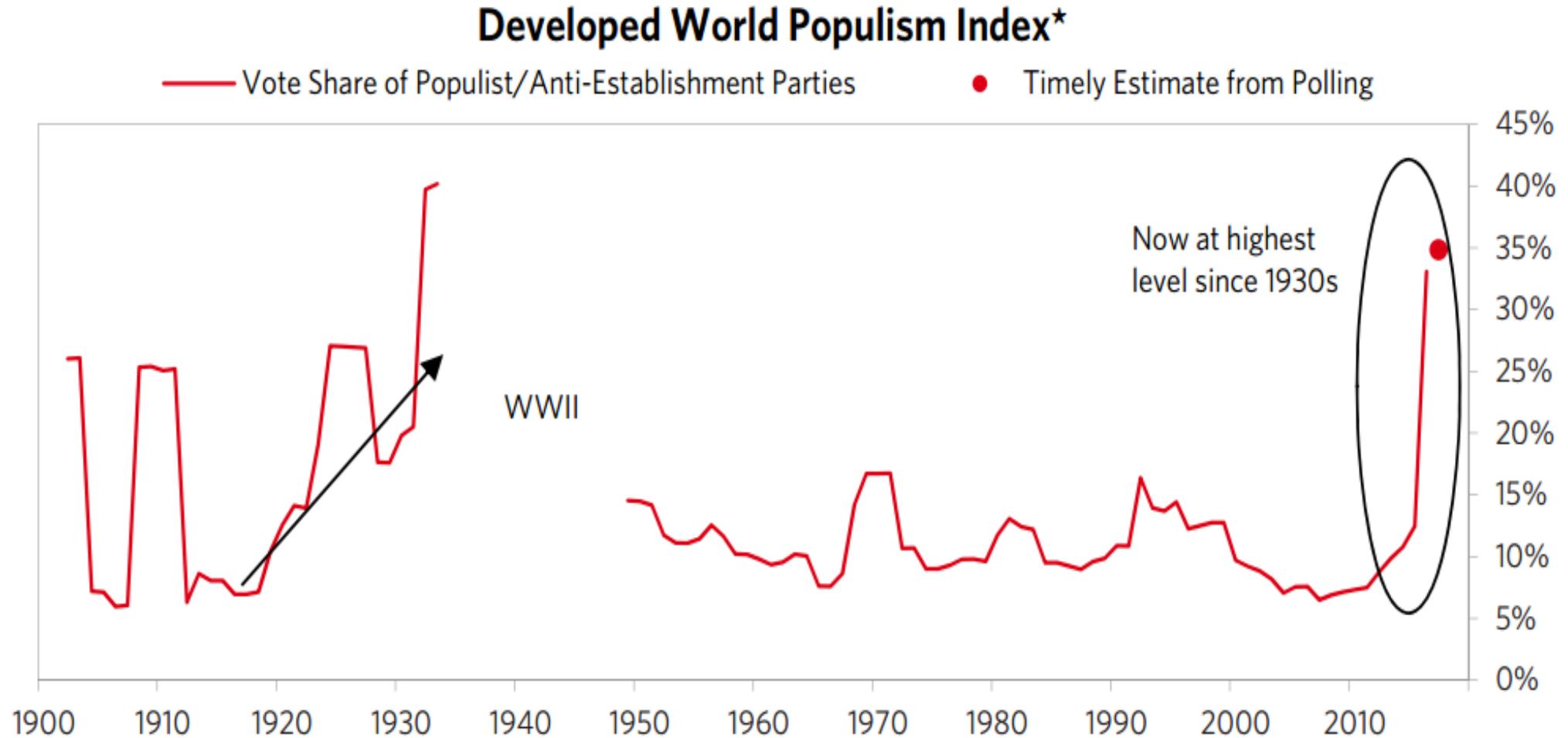
Real disposable income growth by income position, average for 17 OECD countries, 1985-2016 (1985 = 100%)



#3 The rise of the angry voter, is popular in disbelief.



Rising Inequality has produced populists in: Trump's US, Italy, Philippines, Turkey, Brazil, plus Brexiteers, and Frexit followers.



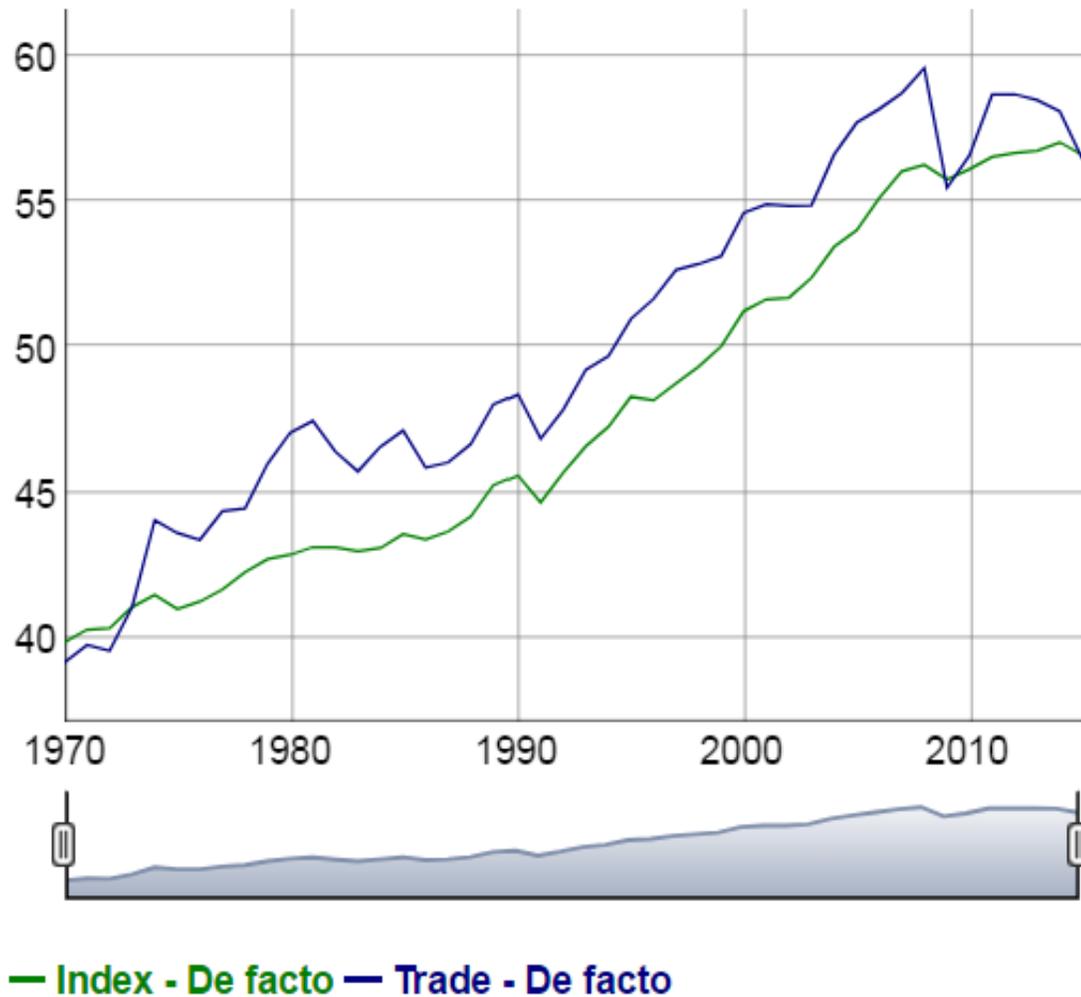
*The latest point includes cases like Trump, UKIP in the UK, AfD in Germany, National Front in France, Podemos in Spain, and Five Star Movement in Italy. It doesn't include major emerging country populists, like Erdogan in Turkey or Duterte in the Philippines. (Bridgewater Daily Observations)

#4 Disruption includes globalisation and technology

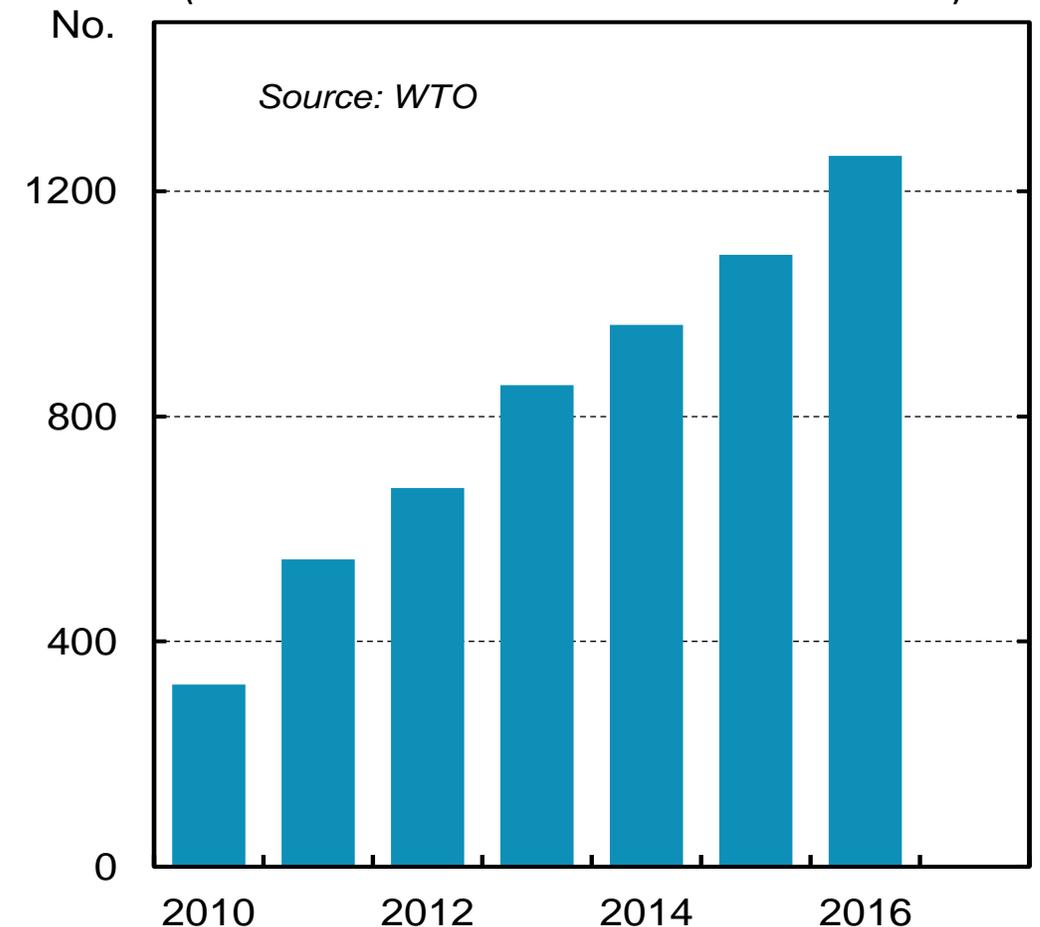


Protectionism is flaring up (again) post-crisis.

KOF Index of Globalisation (1970-2015)



Trade Restrictive Measures in G20 (Cumulative measures introduced from 2008)

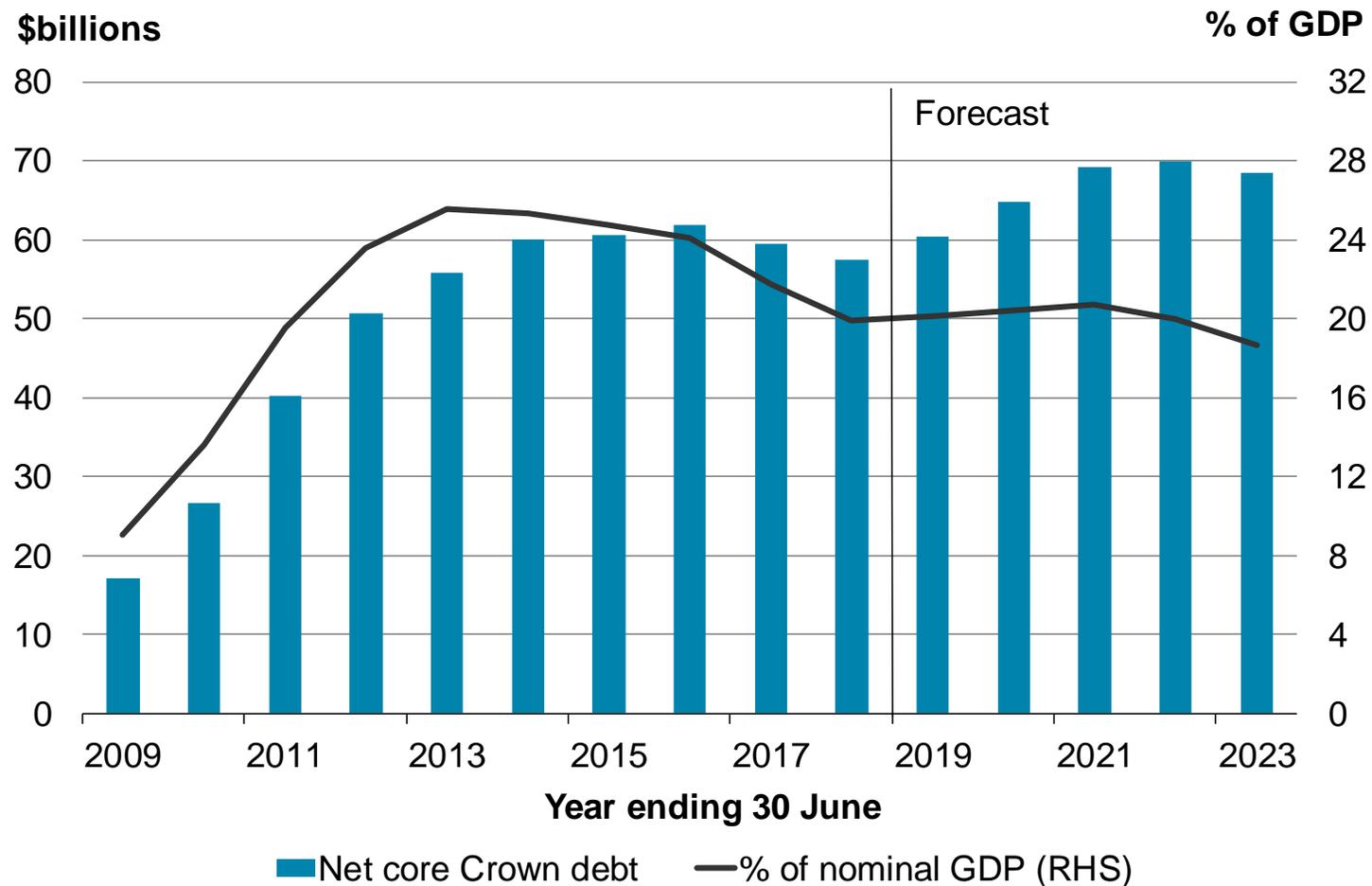


#5 Fiscal austerity is exactly what we don't need.



“The persistence of low inflation and low interest rates is not a surprise when, as has been true in fact, the low interest rates fail to generate substantial fiscal expansion.”

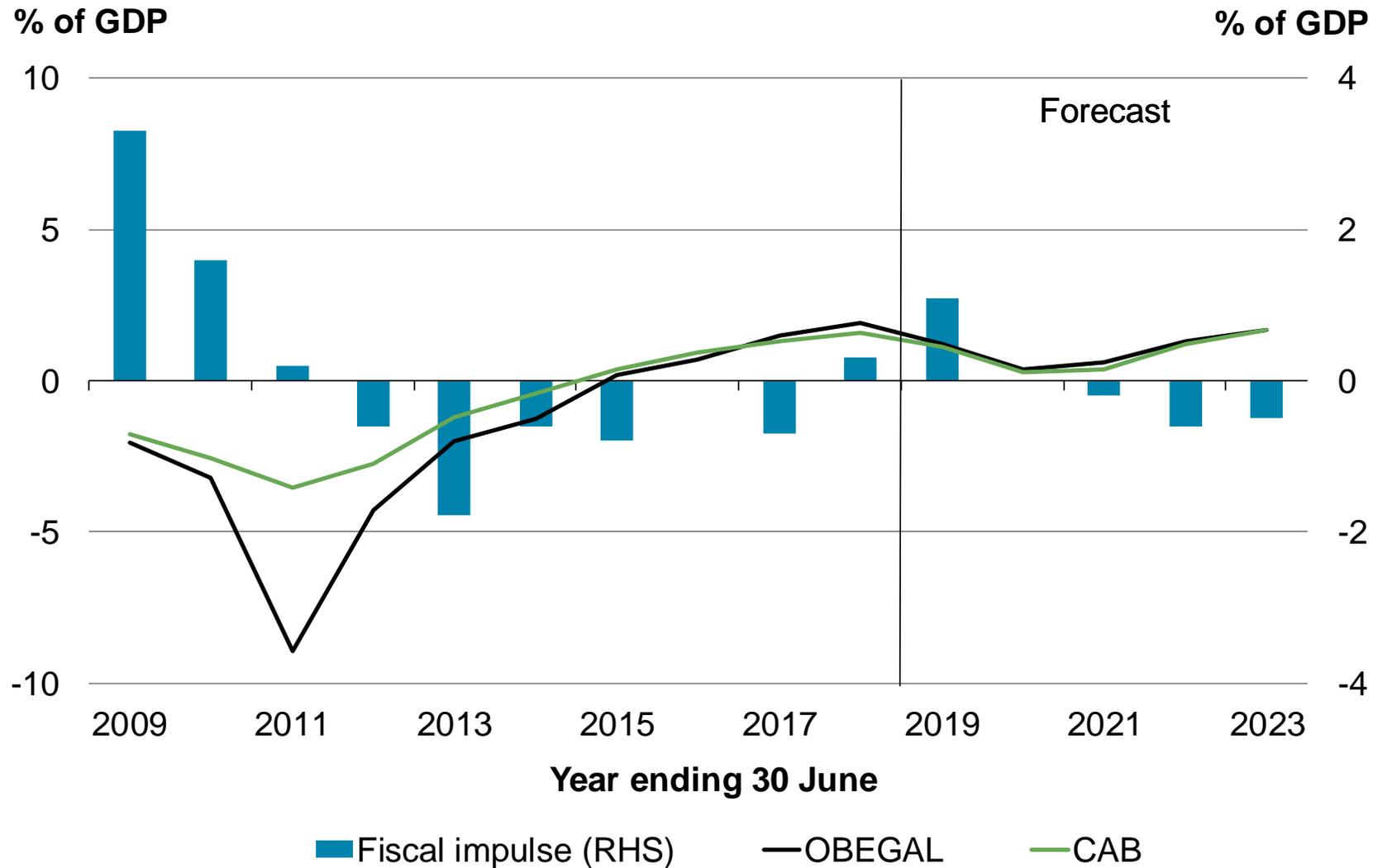
Christopher



Keeping your finger on the impulse.



We get a good, delayed, lift from the Budget. But then we get a drag on growth...

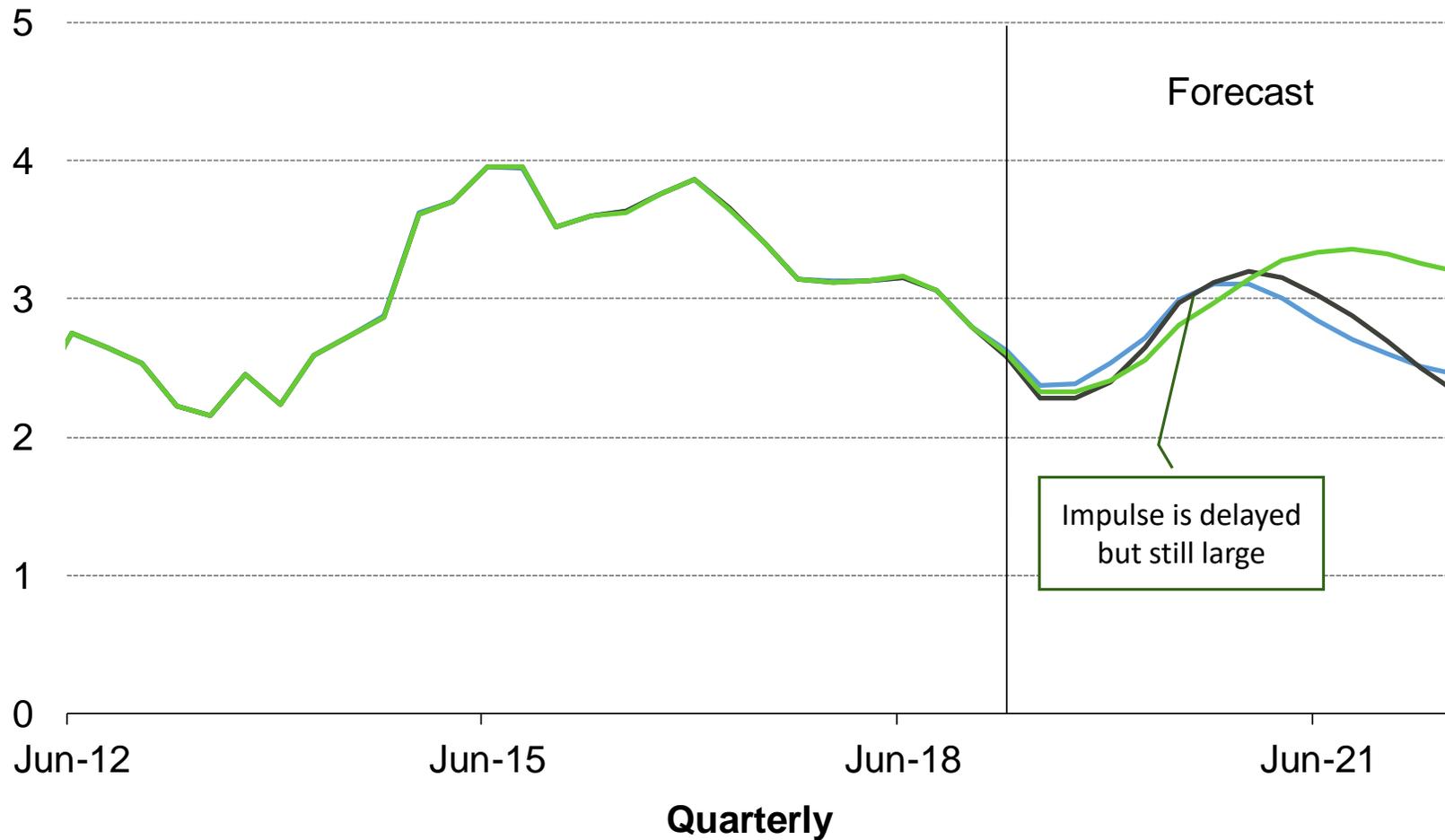


We are growing well, with a boost to come.



Keeping our finger on the impulse, we get a good lift from the Budget(s).

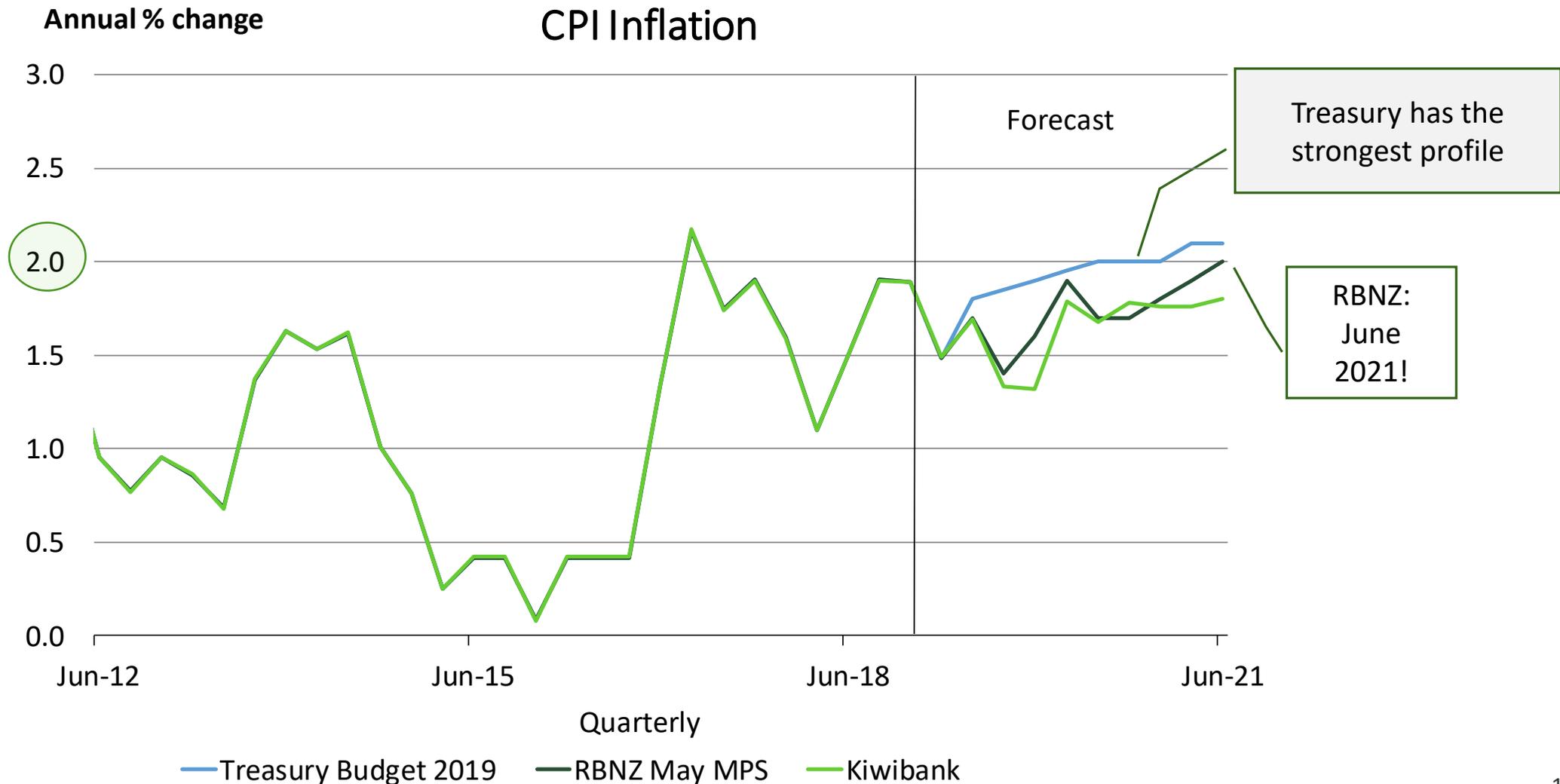
Annual average % change



— Treasury Budget Update — RBNZ May MPS — Kiwibank

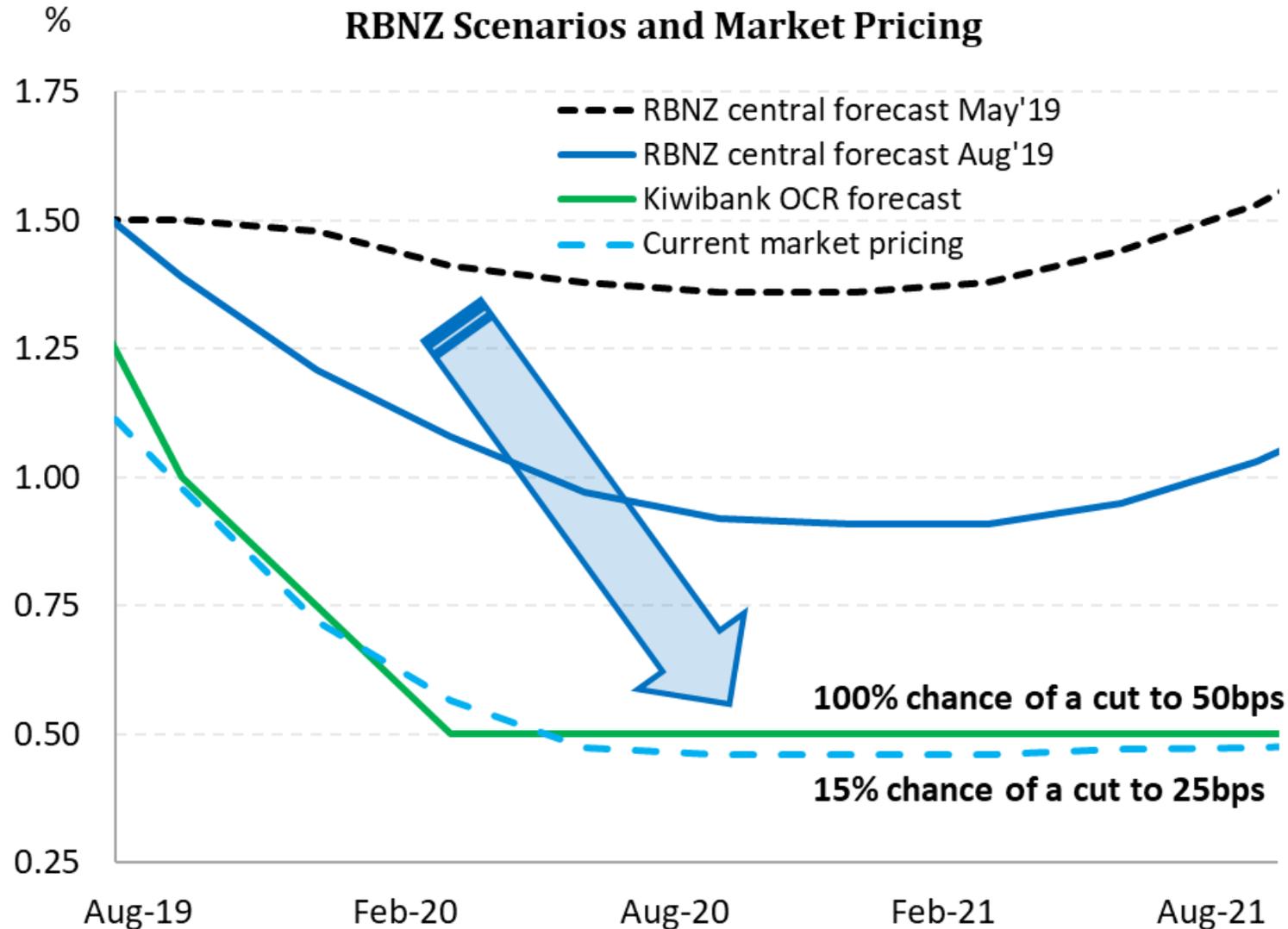
Inflation is still some way away.

Treasury is the most optimistic, well ahead of the RBNZ and Kiwibank.



The RBNZ are likely to cut again, and again...

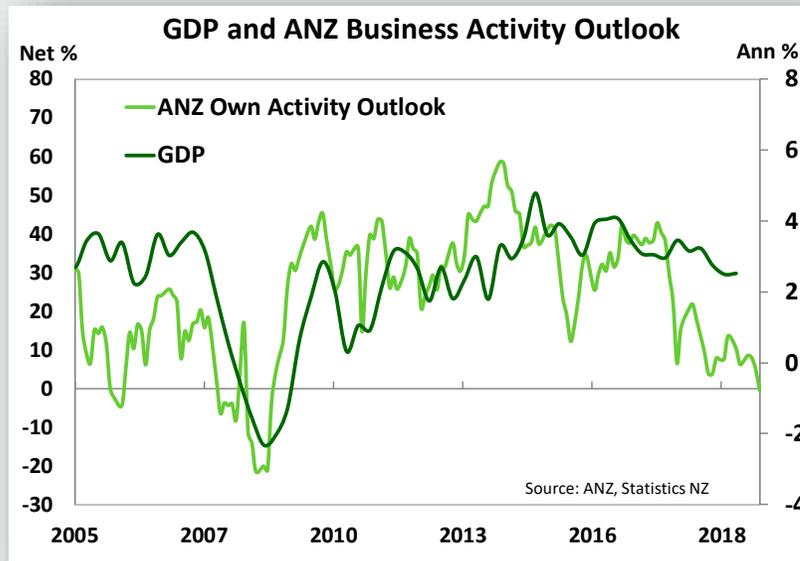
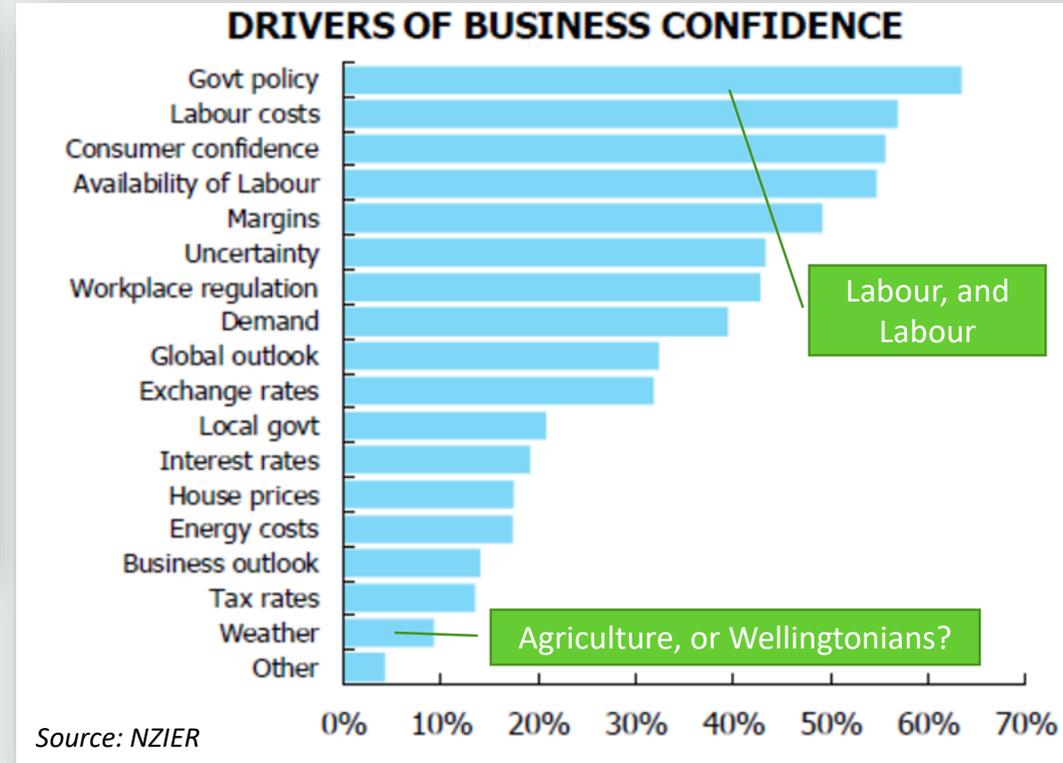
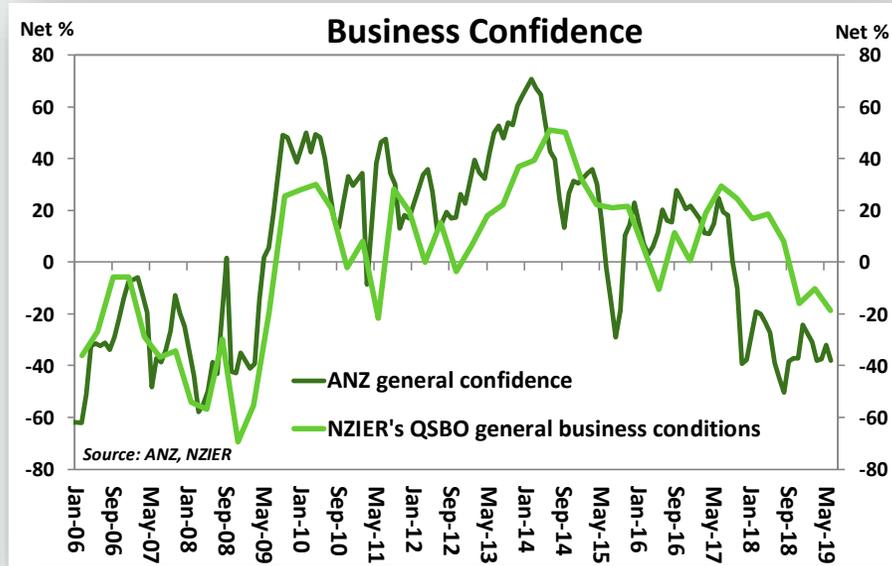
Market traders always look to the next move, and the next.



The RBNZ have given us a 36% probability of another cut to 0.75%

Market traders are playing the risk of more.

Labour pains: firms are complaining of labour costs/shortages, and Labour policies



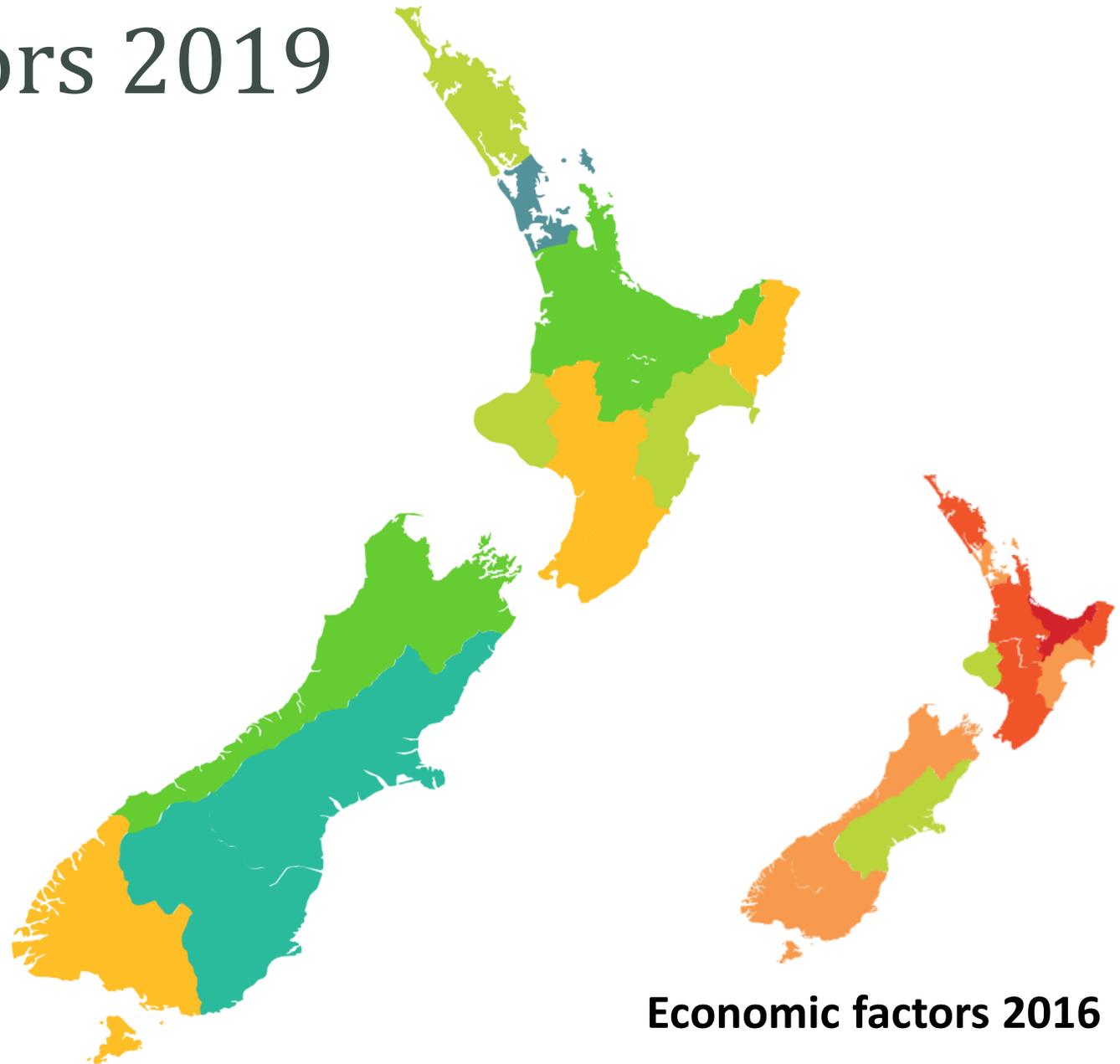
Business confidence should be supported by:

- Abolition of CGT, and nothing unheard-of in the tax group.
- Lower interest rates.

Taking the pulse of the regions

Regions cool but
it's not all bad

Economic factors 2019



Economic factors 2016

Tourism is directly exposed to slowdown in global growth



A slowdown in Chinese visitors hits NZ's tourist hot spots
(% YoY - 3 month moving average)

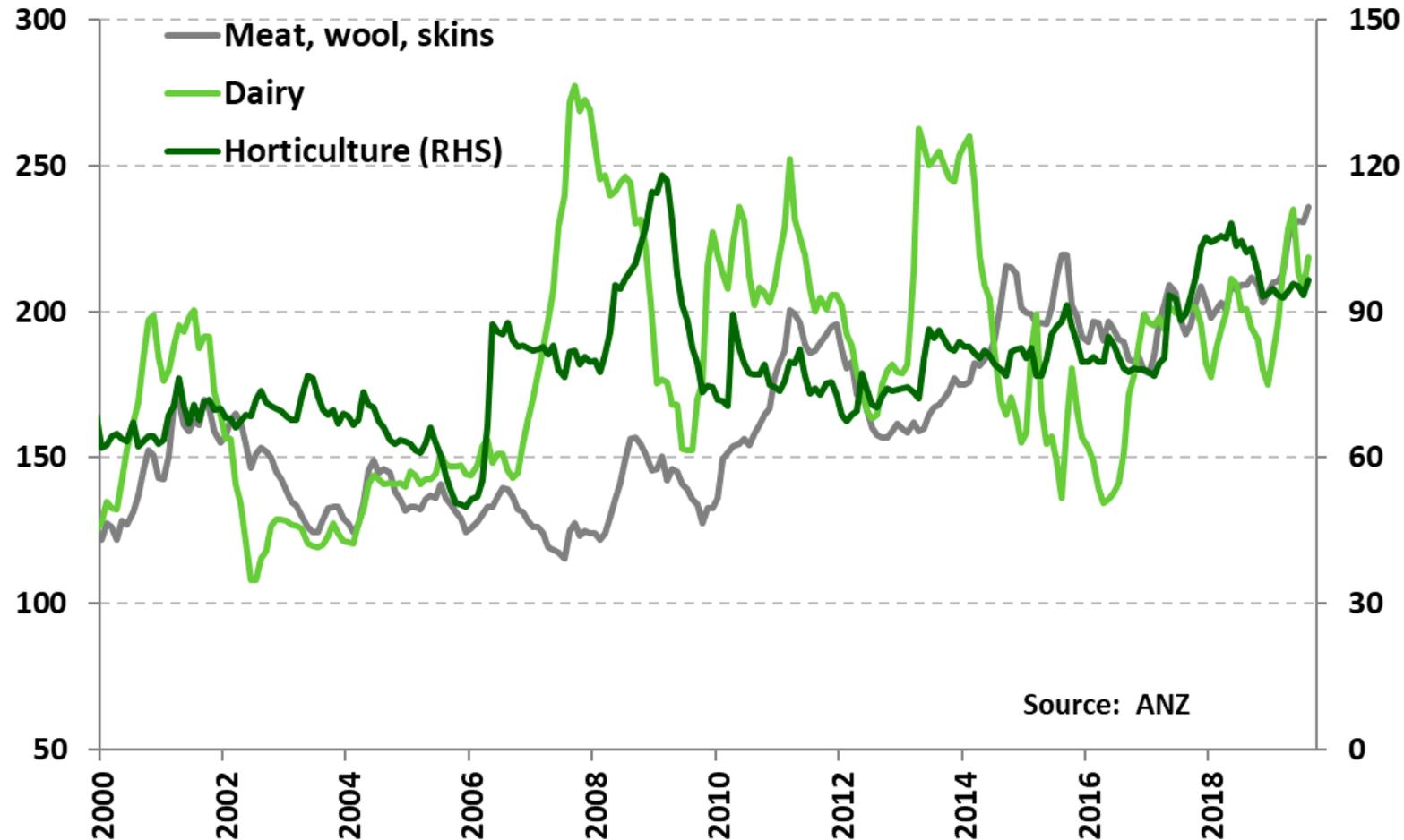


Source: StatsNZ

Agriculture is protected by commodity prices for now



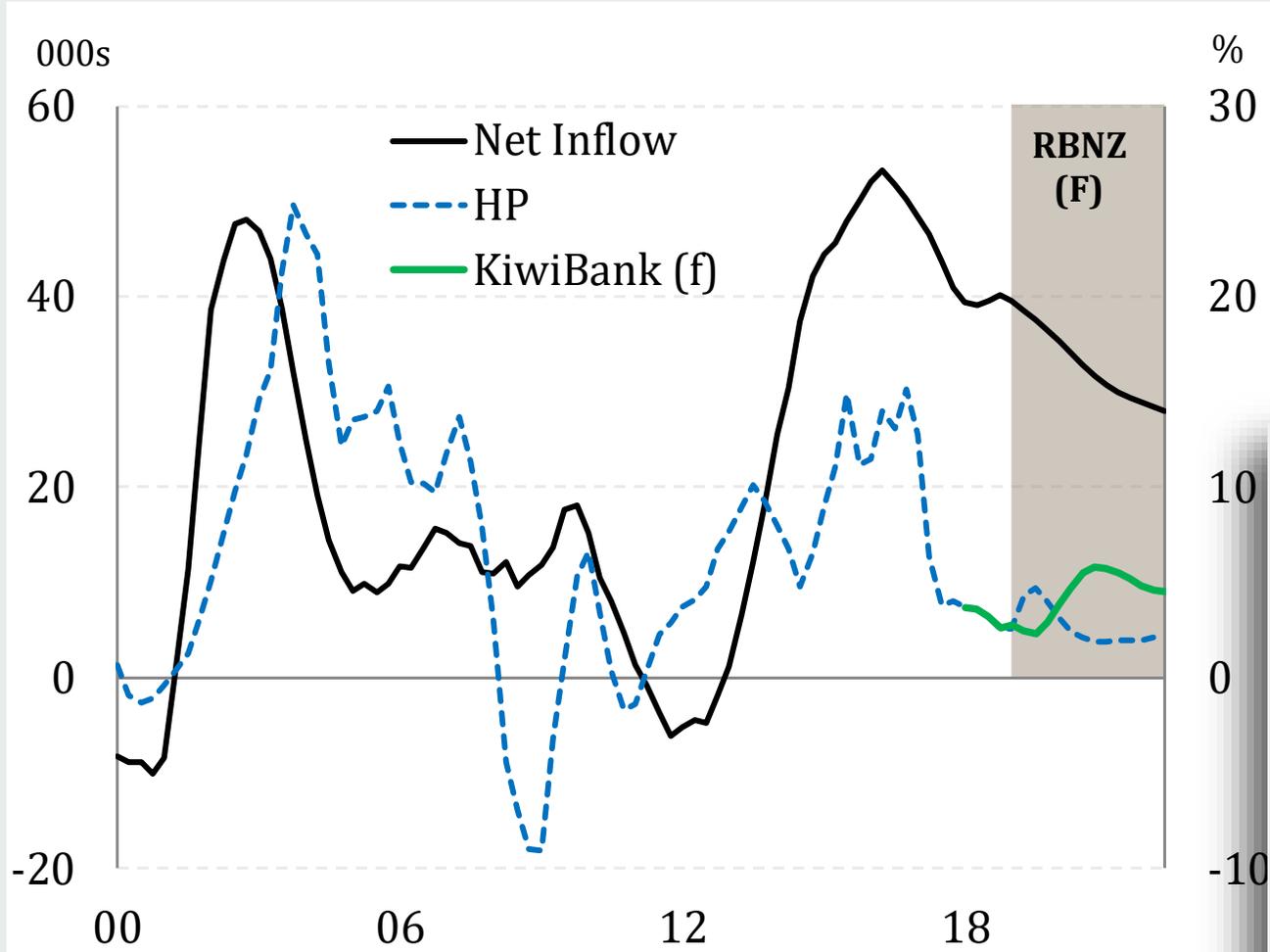
Commodity Prices
NZD Index



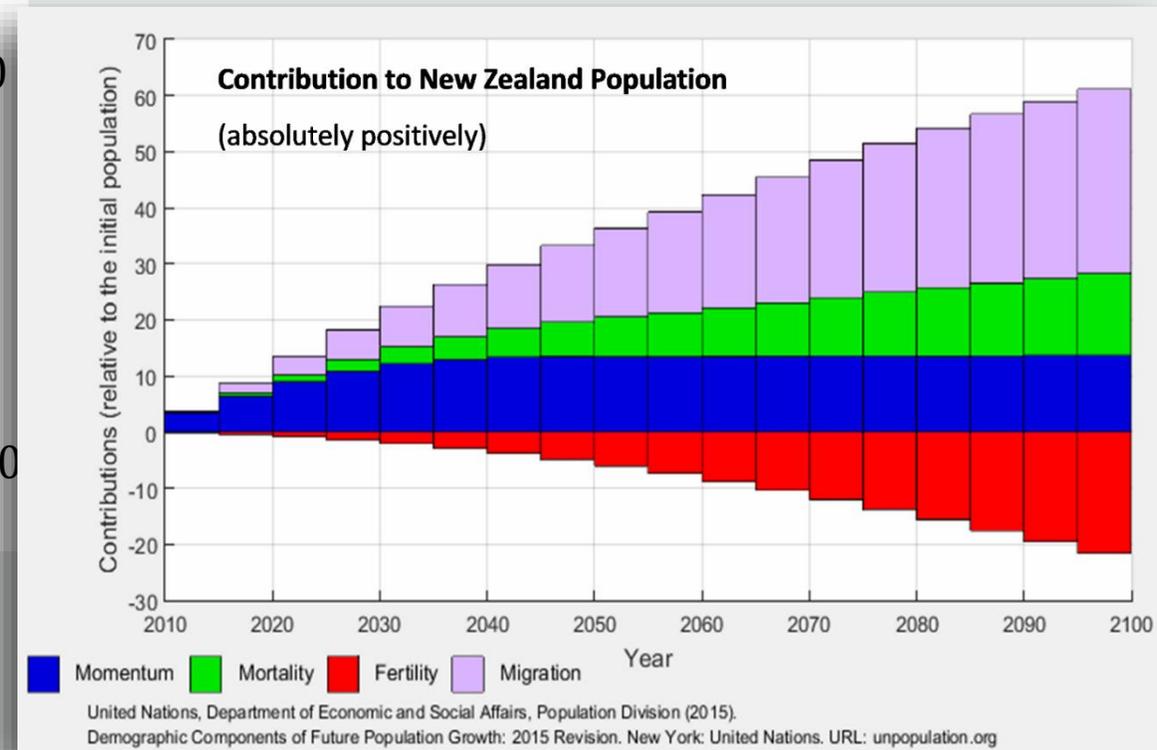
There are 3 Ps to Property:

1. Population
2. Preference
3. Policy

#1 Population: a mammoth migration boom...

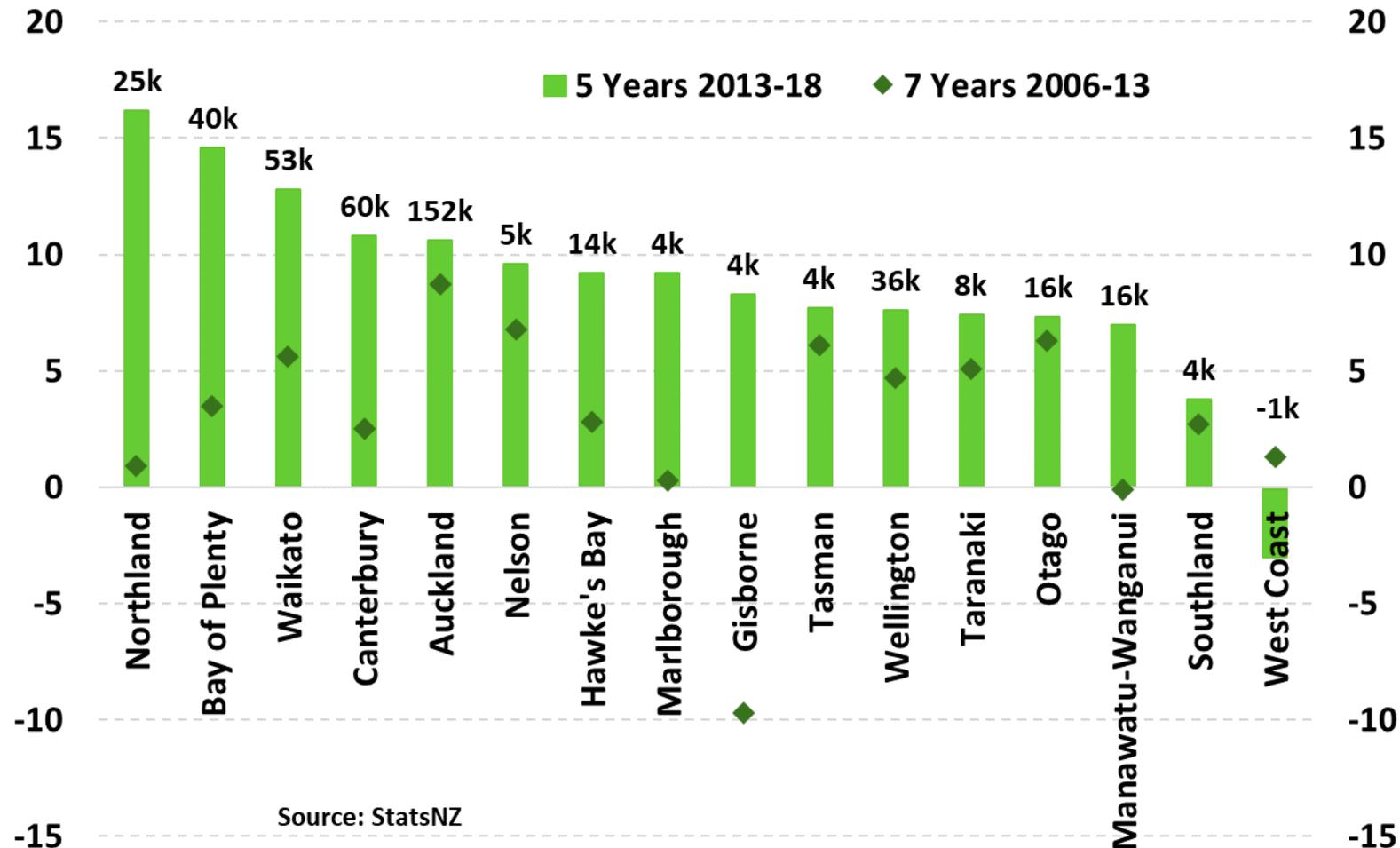


Our population estimates **do not peak**, in our lifetimes.



...concentrated in the north, but a boost everywhere!

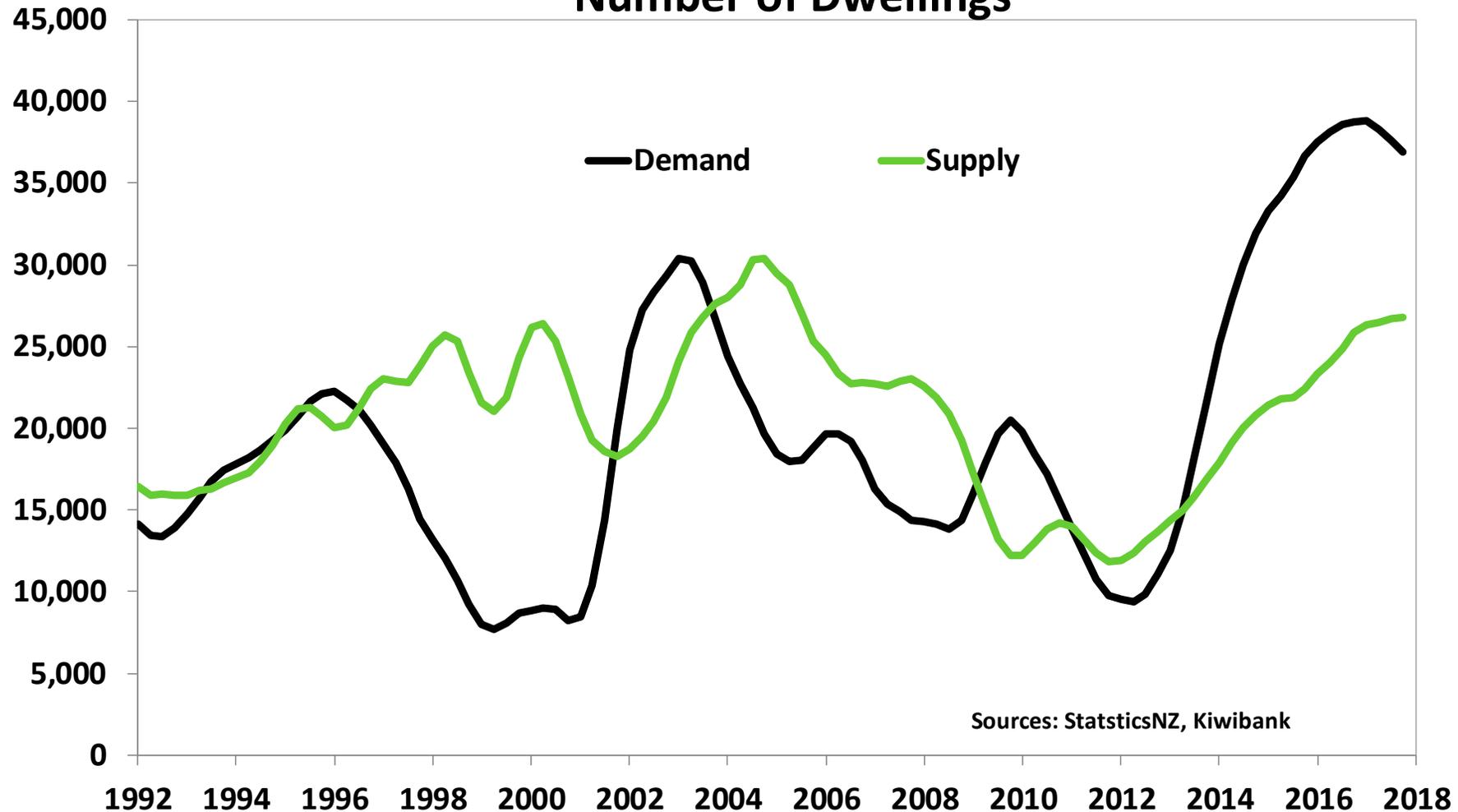
Just how much have regions grown? Population growth % change



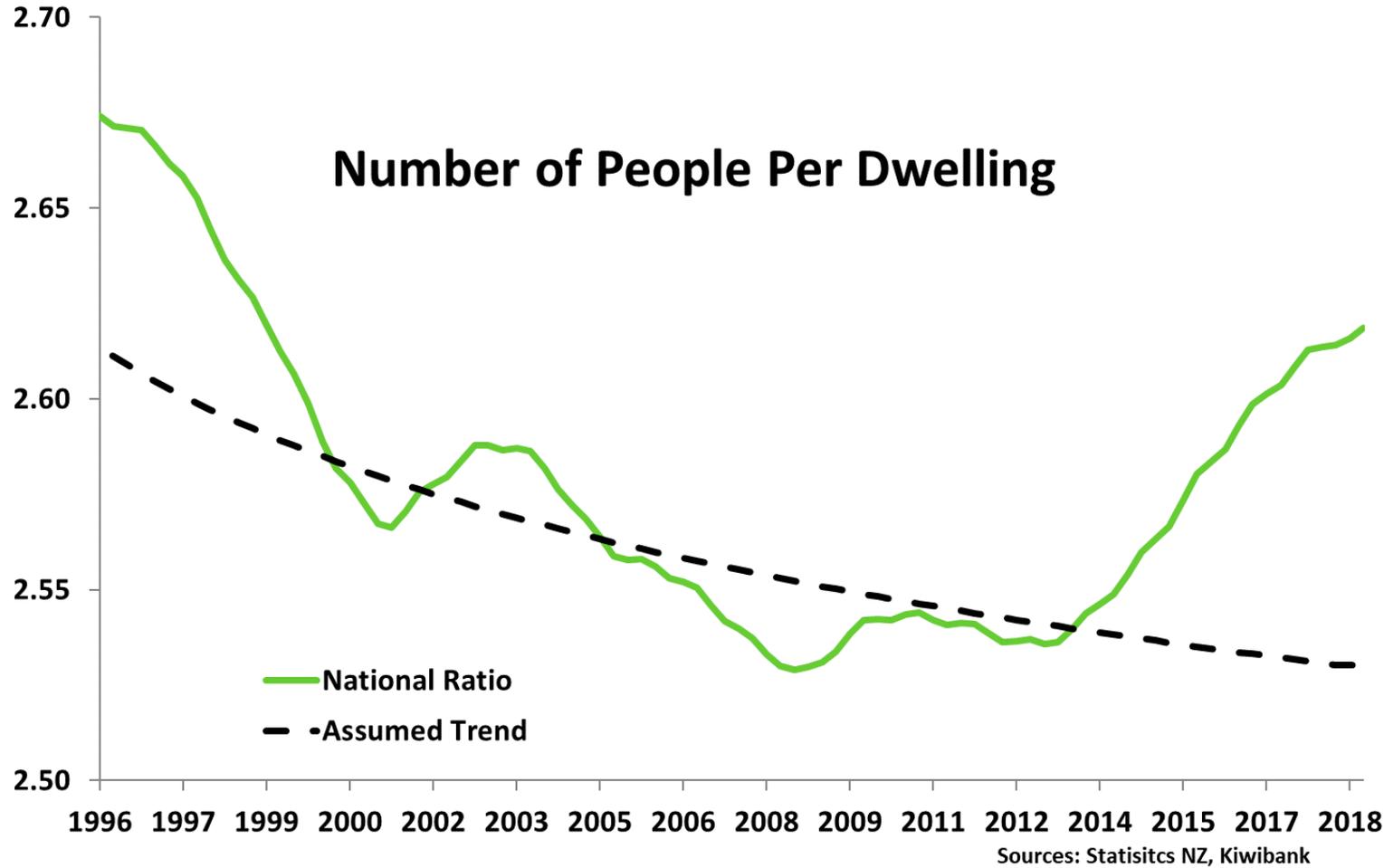
We like playing with models. Here's ours...



Change in Housing Demand and Supply Number of Dwellings



We are short 130,000 homes!



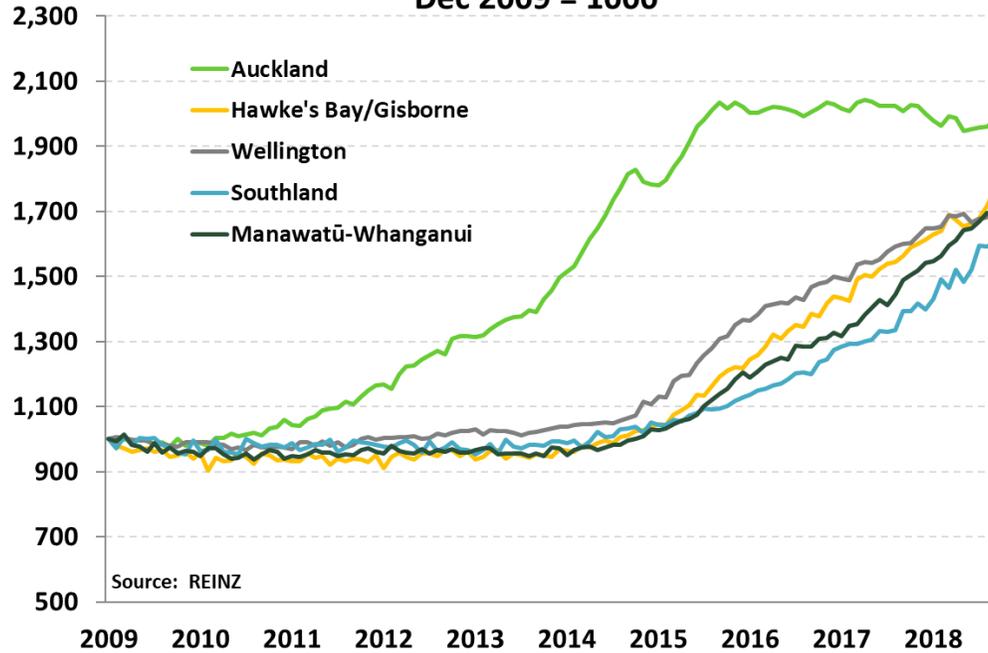
The recent spike in people per dwelling confirms undersupply.

Think battery hens rather than free range. People's preferences are adapting.

The regions are playing catch up... as some Aucklanders leave

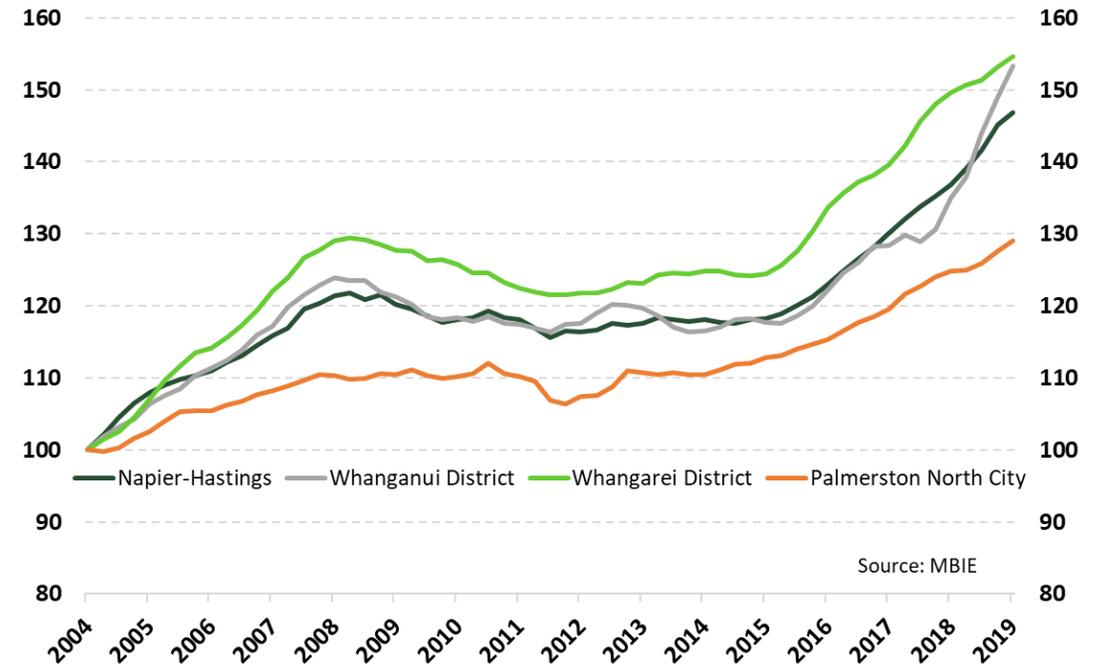


House Price Index: Regions play catch-up
Dec 2009 = 1000

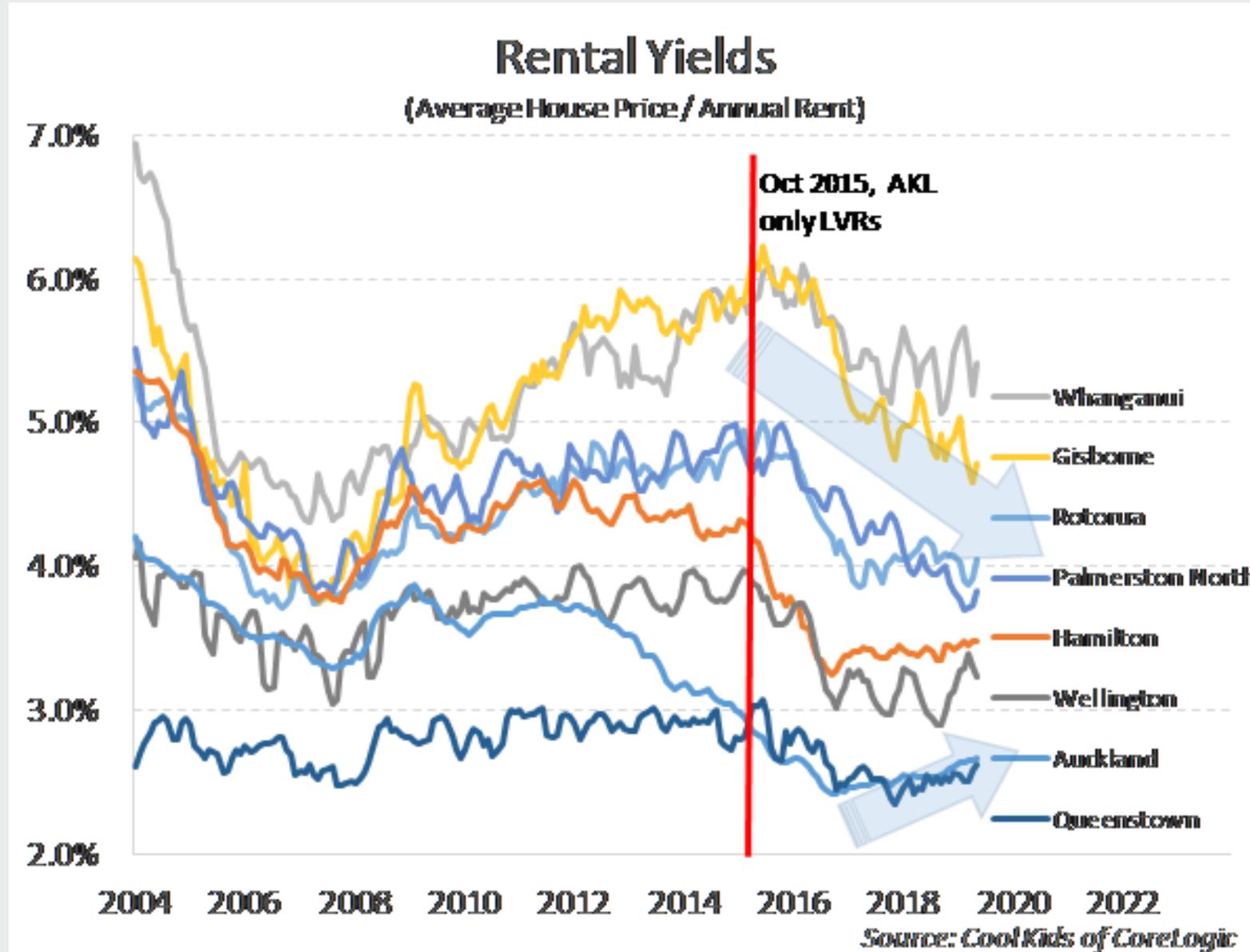


But not just investor led,
Population is playing a role too!

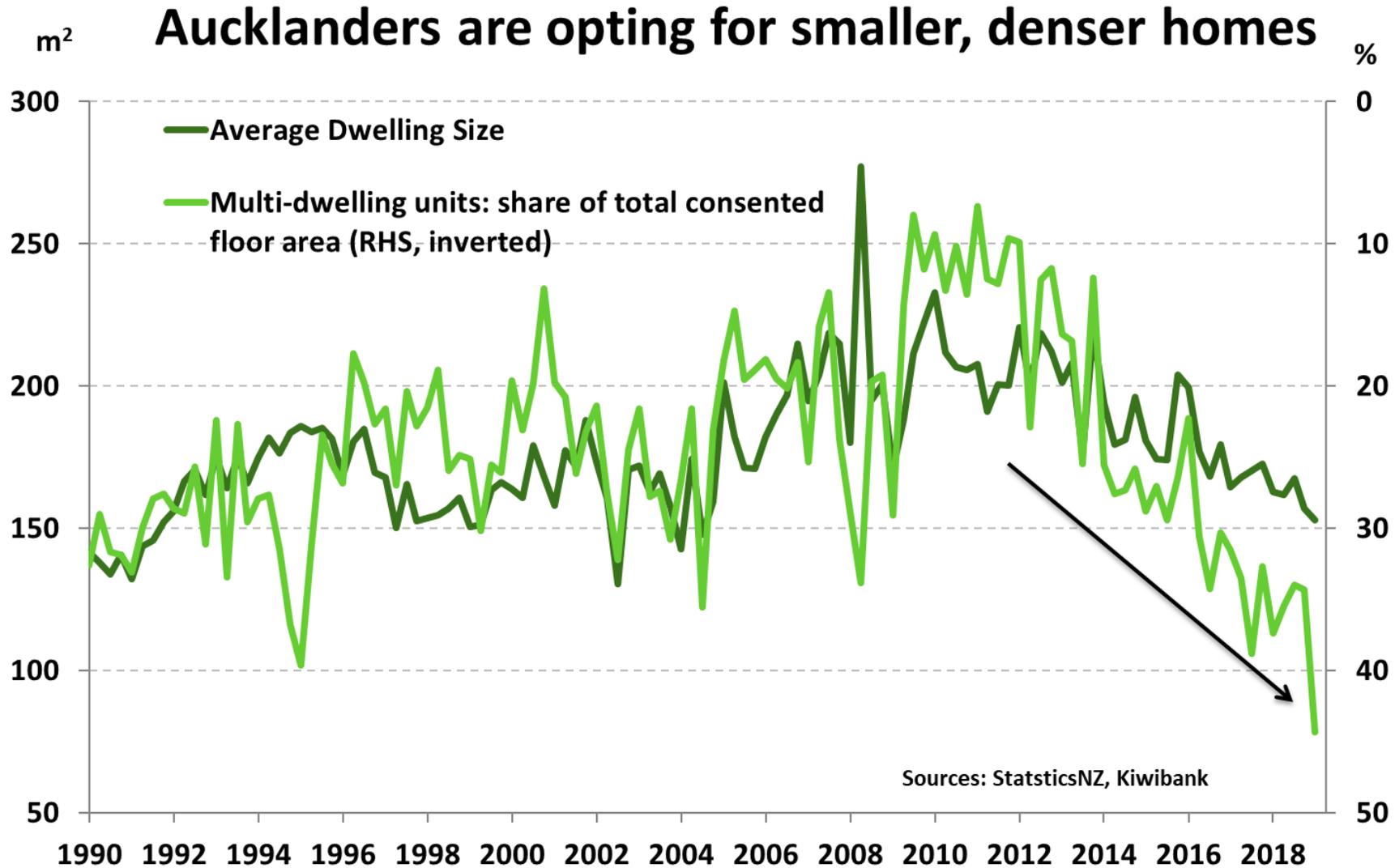
Real Average Dwelling Rent - 12 MMA
(Index Q1 2004=100)



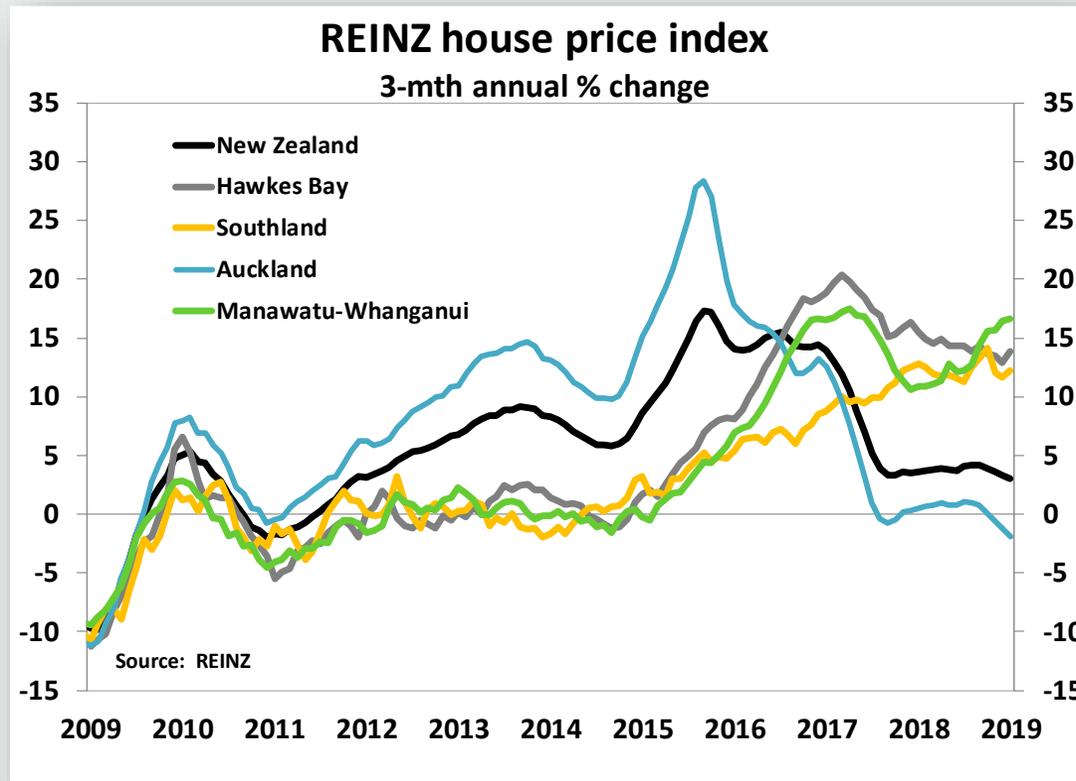
The hunt for yield.....has led Aucklanders to the regions.



#2 Preference: is now higher density (globally)



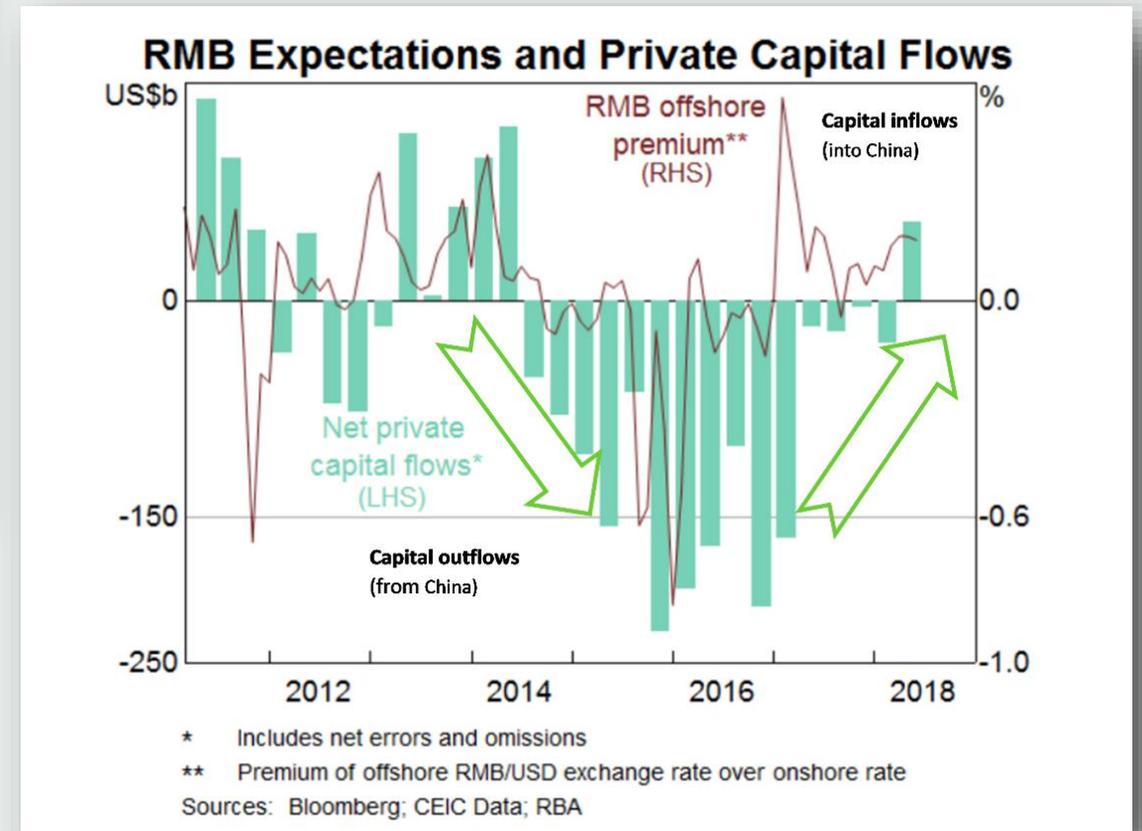
Auckland and Queenstown benefited from foreign buying.



Chinese buying had a large impact on Auckland, as well as Sydney, Melbourne, Vancouver, Singapore and London.

English Property Rights

Foreign buying comes and goes, and then comes back again.

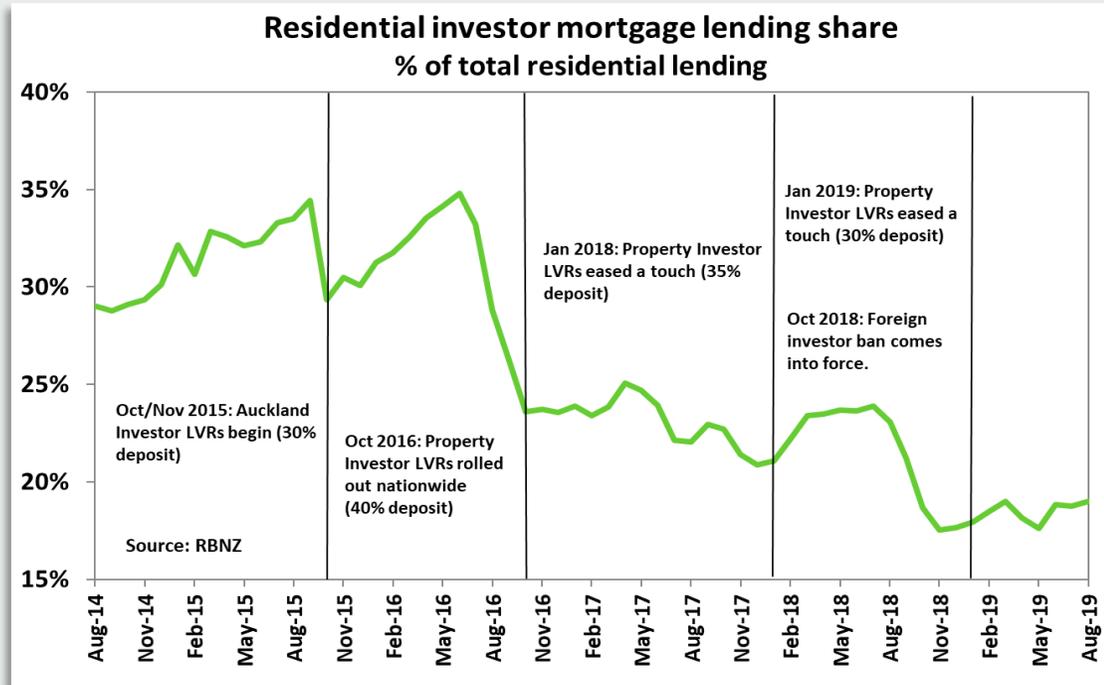


* Includes net errors and omissions

** Premium of offshore RMB/USD exchange rate over onshore rate

Sources: Bloomberg; CEIC Data; RBA

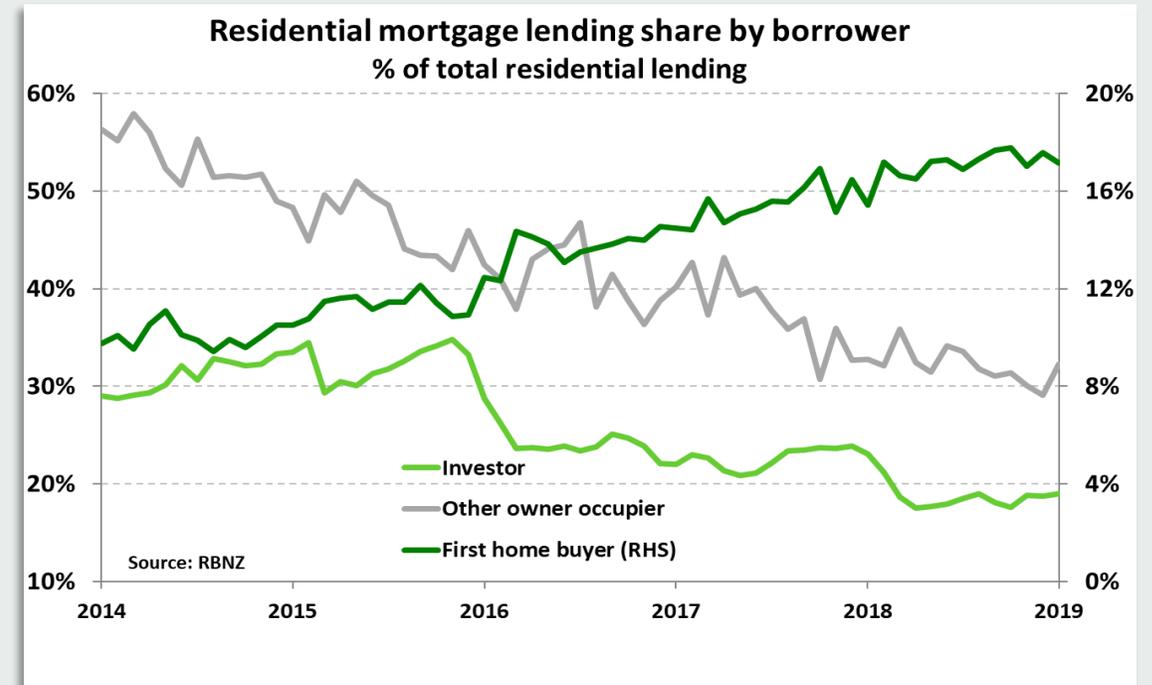
#3 Policy: Macropru policy restrained investors



“We find that the LVR restrictions have significantly improved the resilience of the banking system.” RBNZ LVR Review 2019

- Lending was a little too aggressive over 2014-16.
- Now lending is safer, but slower.

First home buyers have increased as a percentage of total.

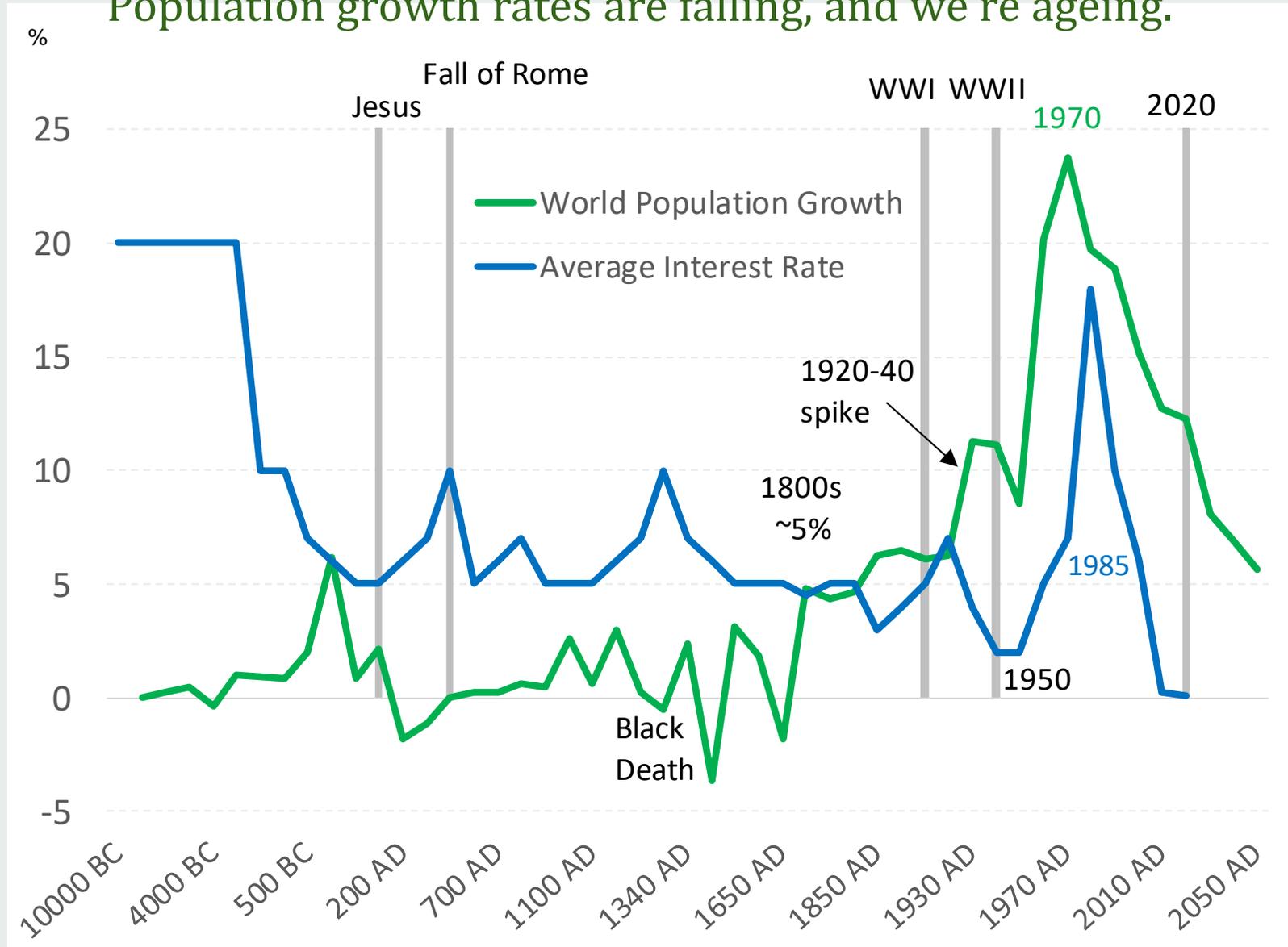


Are there any questions



The tectonic shift in demographics

Population growth rates are falling, and we're ageing.



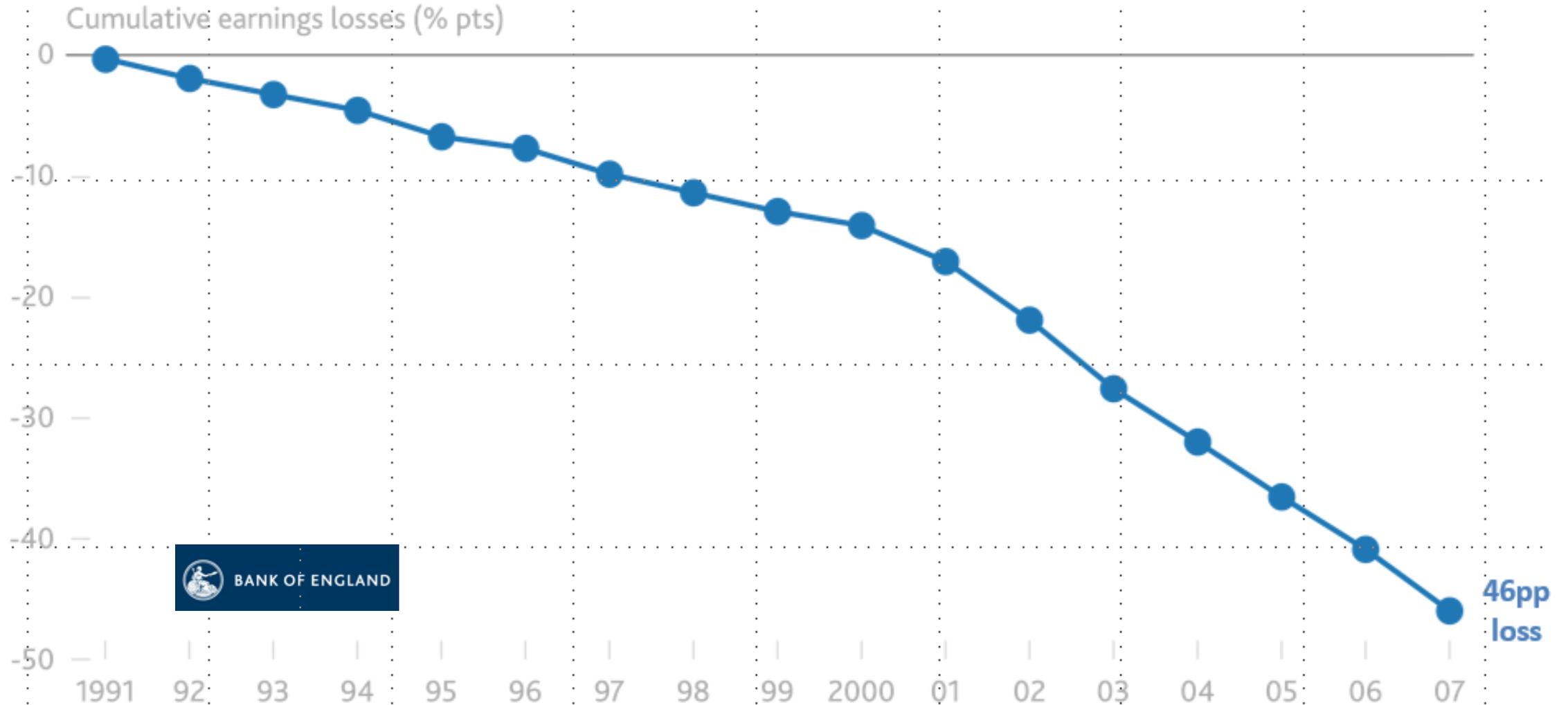
Brexit Breaking Bad...

Brexit is possibly the most complicated political situation you'll ever see.



Globalisation, and EU entry, exposes some workers.

The relative wages of workers exposed to global labour markets get squeezed.



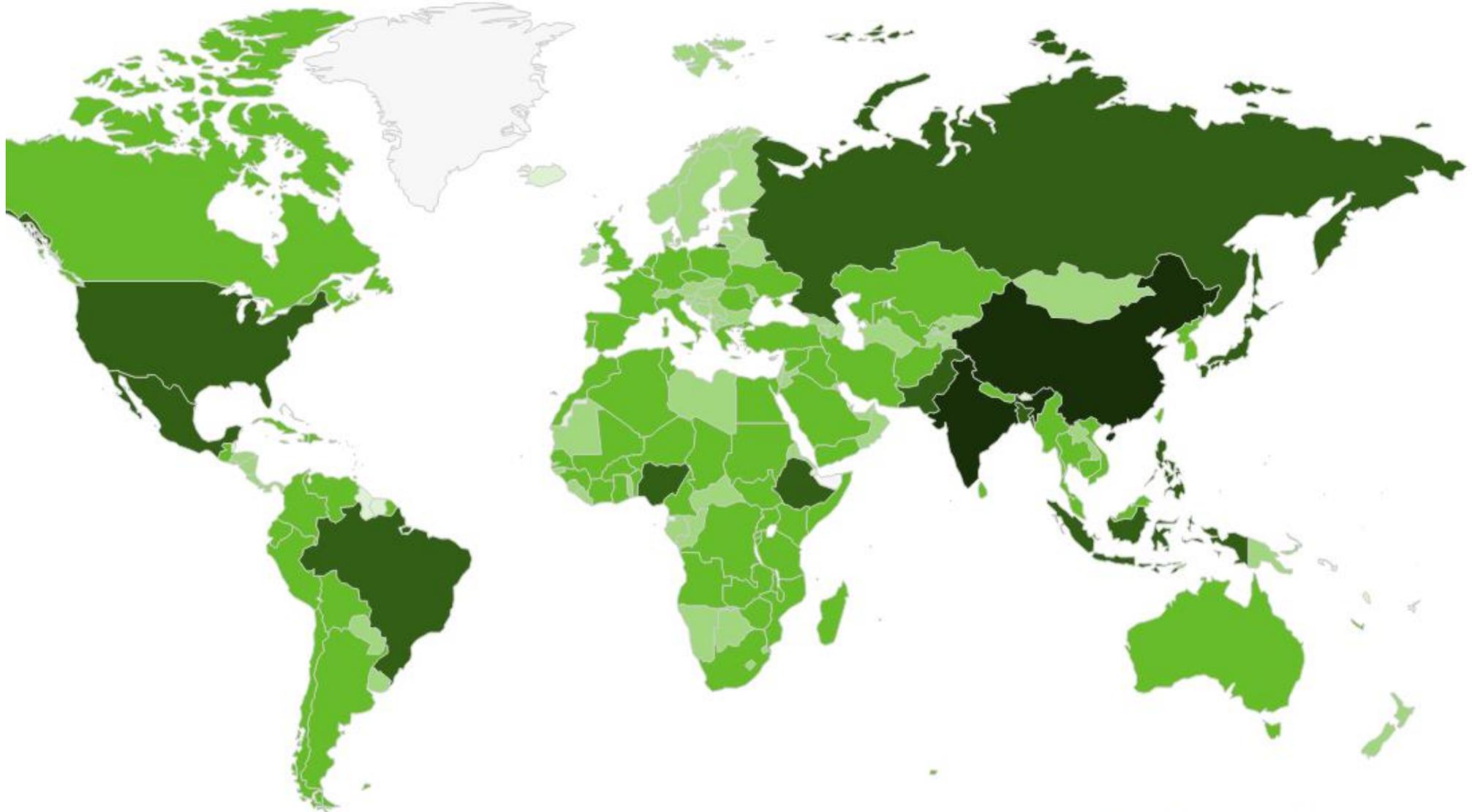
Tr(i)umphant Trump is a Populist Protectionist...

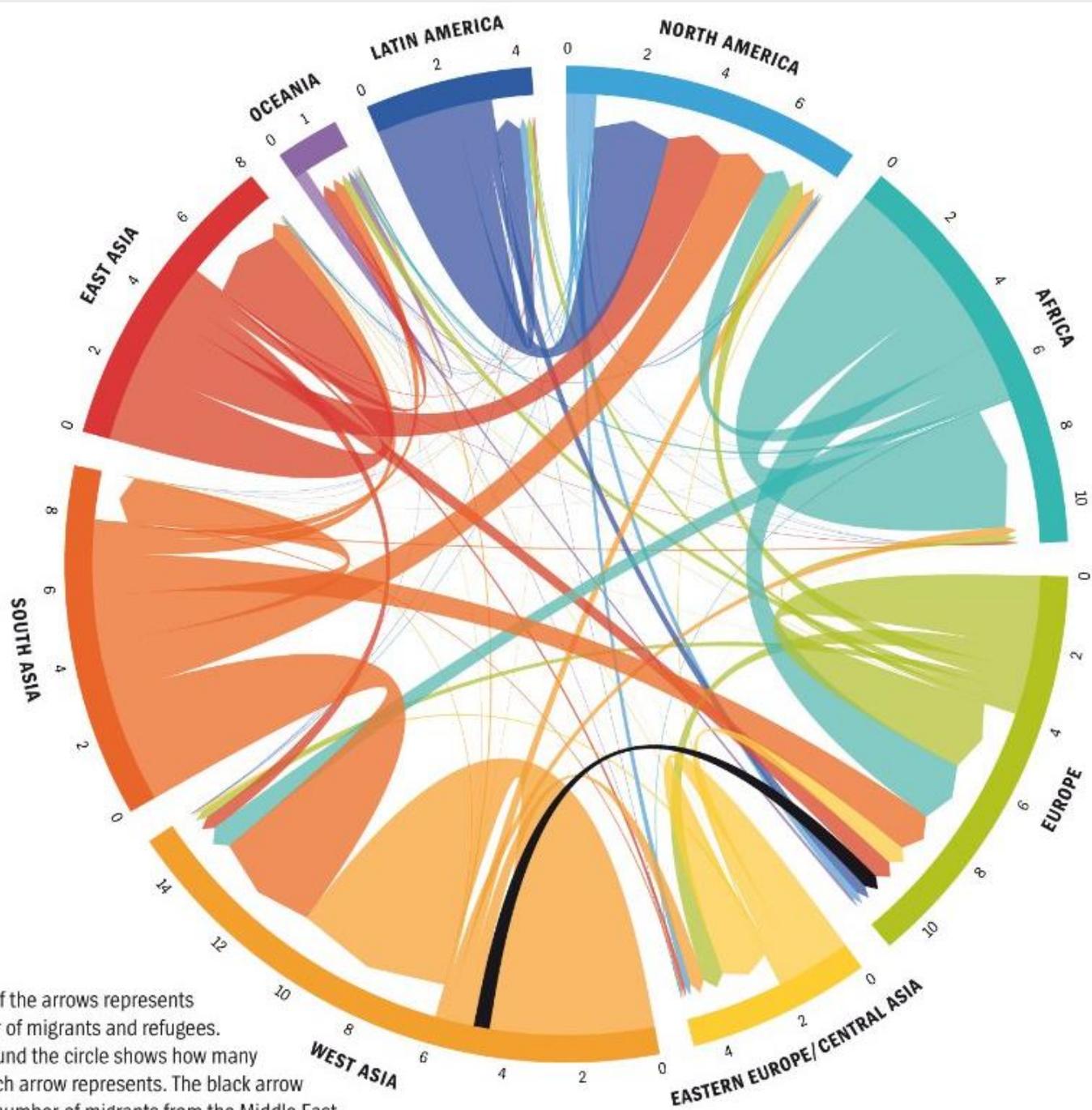
The US-China trade deal should be signed, but is only the start.



We are geographically closer to the action.

We are right next door to the most populous part of the planet.



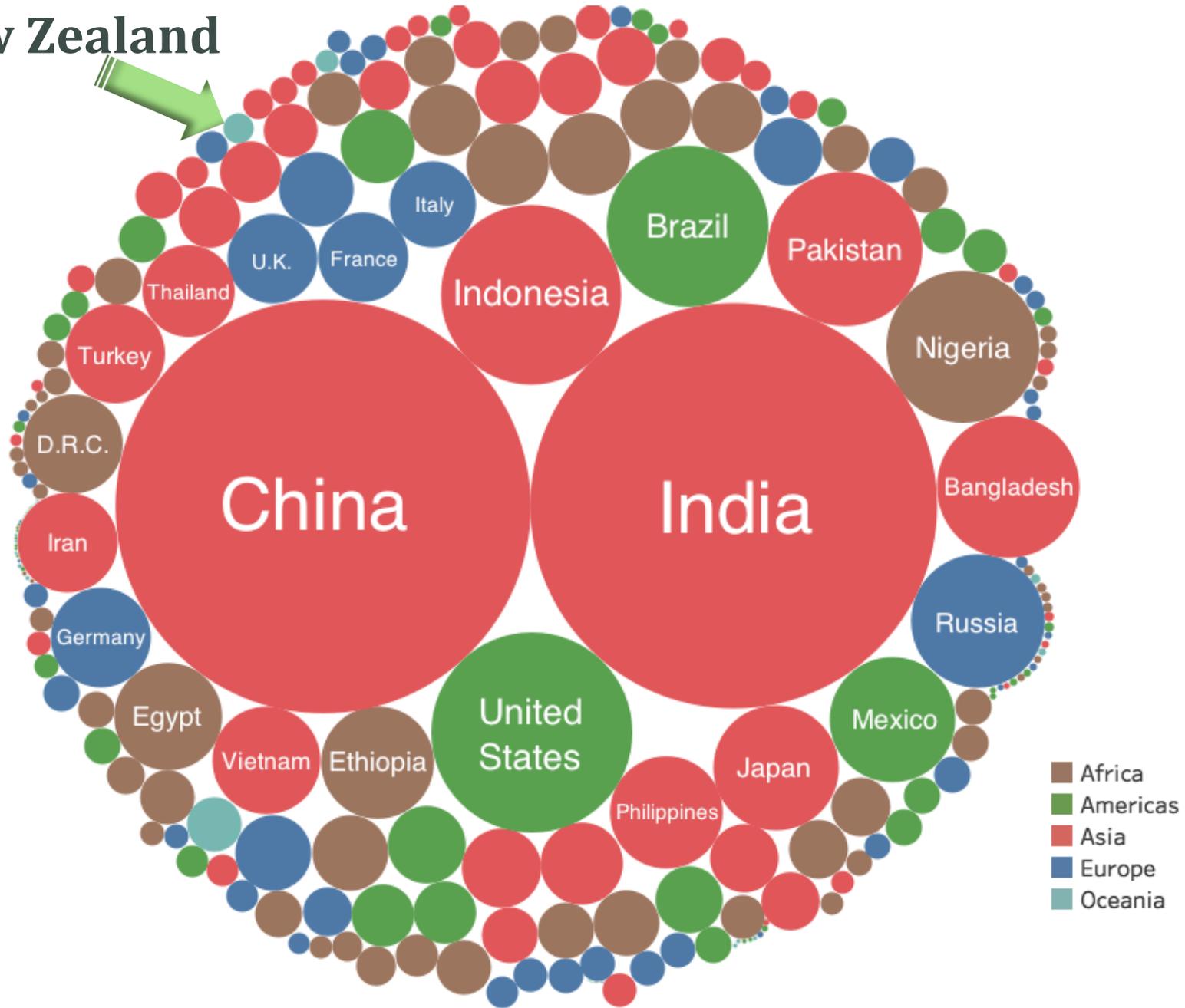
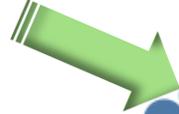


The width of the arrows represents the number of migrants and refugees. A scale around the circle shows how many millions each arrow represents. The black arrow shows the number of migrants from the Middle East, including those from Syria, migrating to Europe up until mid-2015.

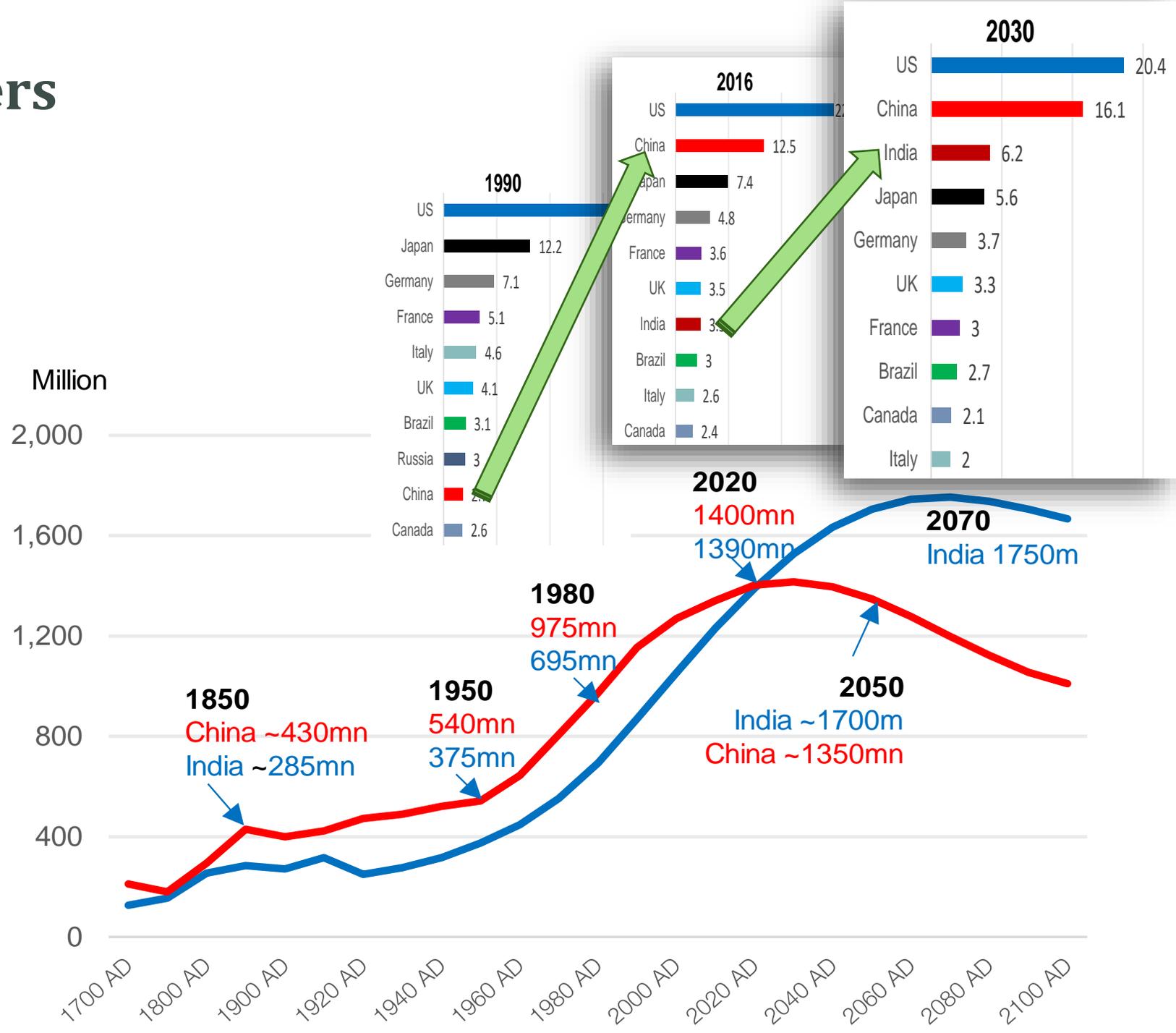
“Migration paths do not lead primarily from very poor to very rich countries, but rather adhere to a graduated model. People move to countries where the economy is somewhat stronger than in their native country... from Bangladesh to India or from Zimbabwe to South Africa.”

- The US attracts a vast array of migrants (Latin, Asian, African).
- The EU also attracts many migrants from many nations (African, Asian).
- Most of Asia’s migrants stay on the continent (despite largest outflows).
- Australia and New Zealand now attract more migrants from East Asia, South Asia, and Africa over Europe.

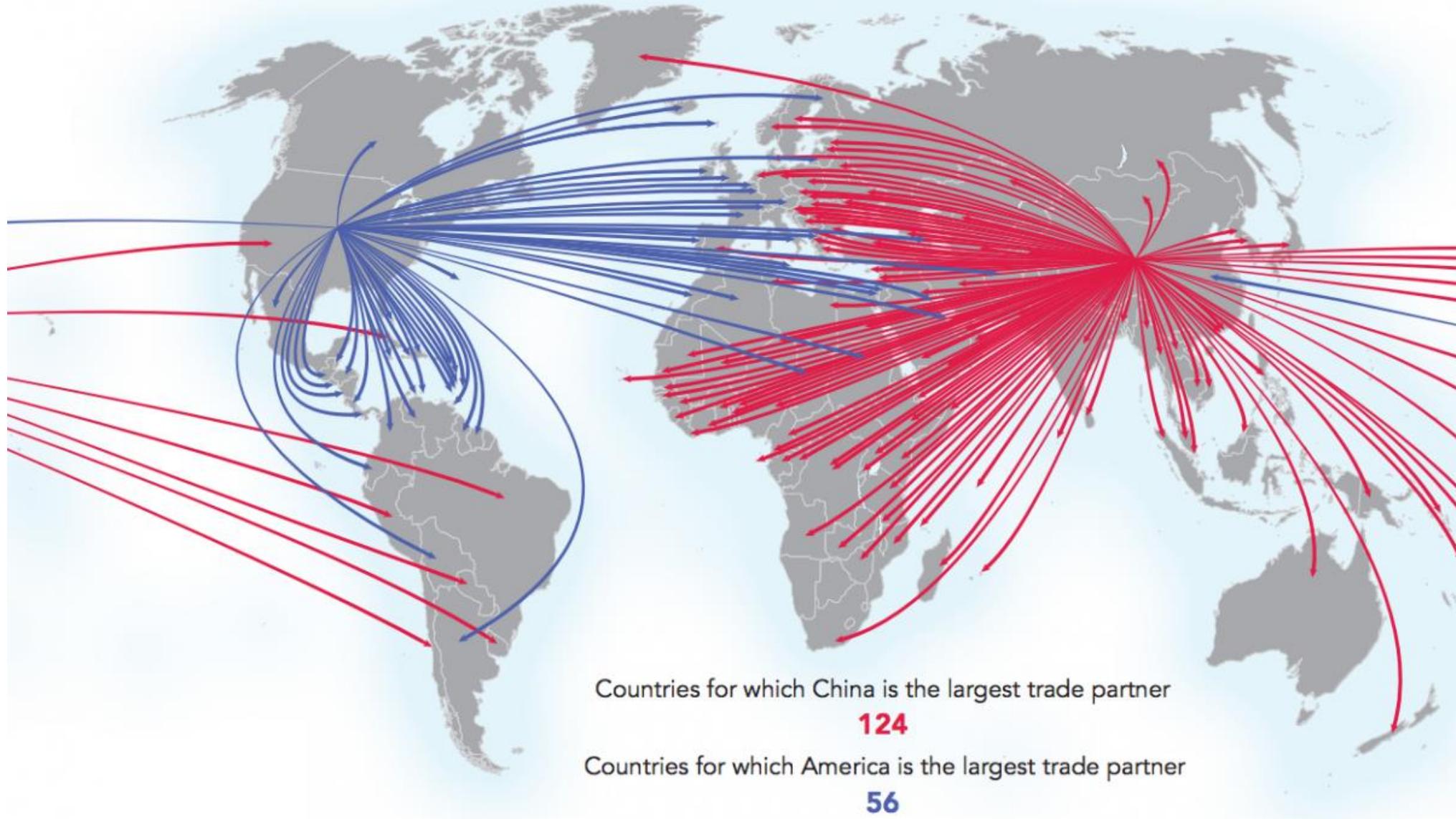
New Zealand



Rising powers



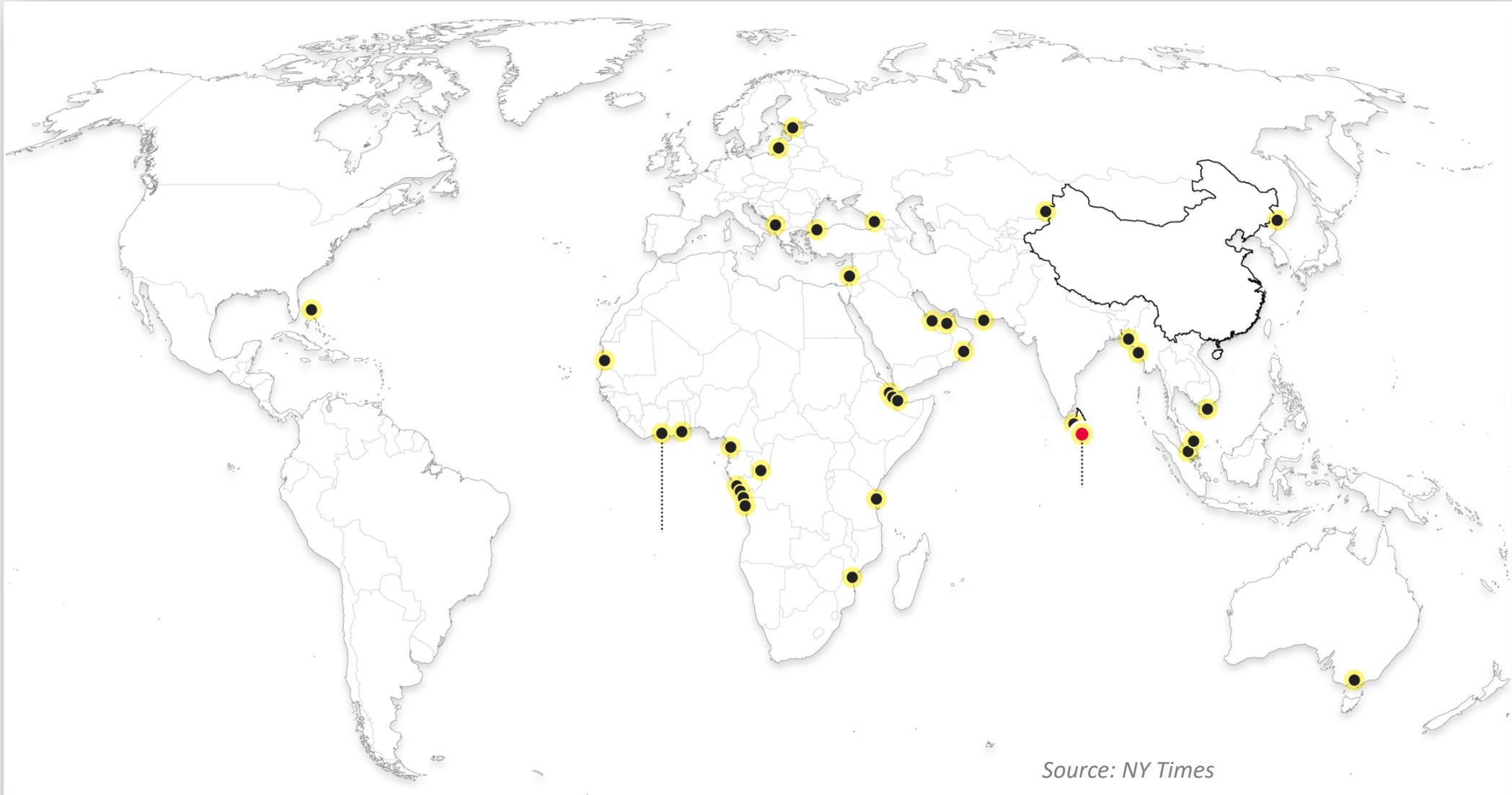
China is the world's largest trading partner.



China's new silk road and belt initiative is BIG.



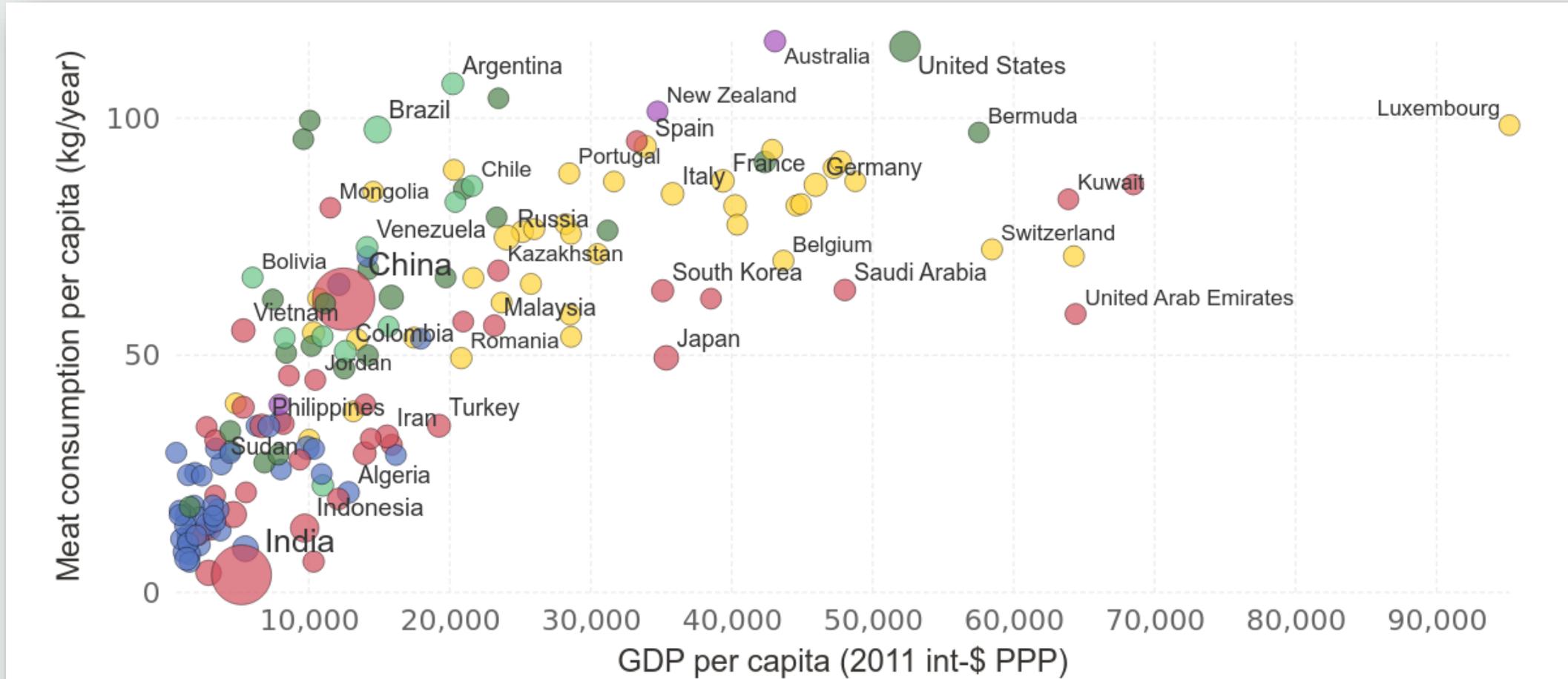
35 strategic Chinese-funded ports, will test the US.



Source: NY Times

Protein consumption and wealth increase together.

China was once worse (lower) than India. India will one day match China today.



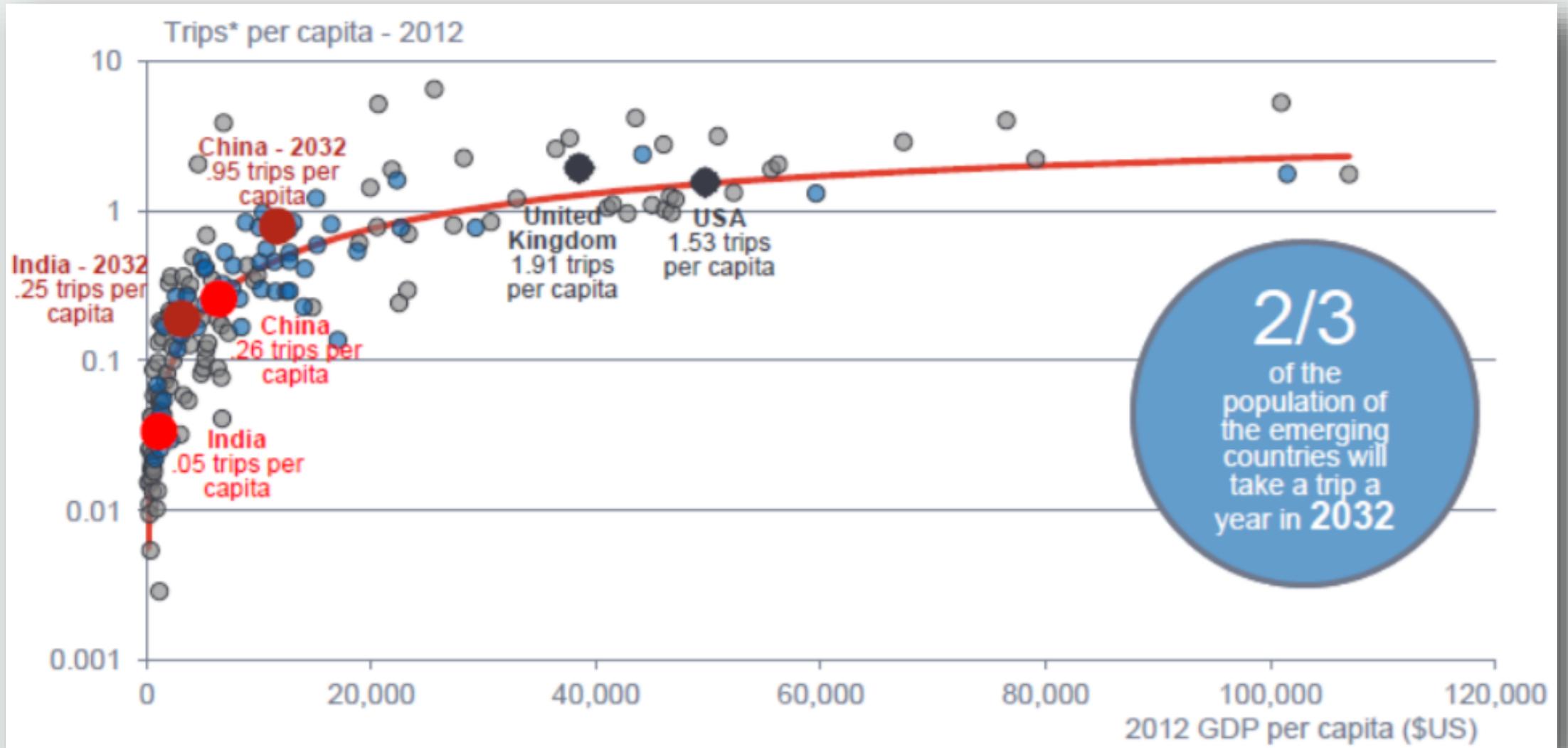
Data source: FAOstat; Penn World Table 9.0

OurWorldInData.org • CC BY-SA

Note: Size of scatter bubble representative of population size

Airline travel and wealth also move in line.

China is still growing in travel, and India has a lot of catch up to do.



We are influenced by machines every day

“Disinformation and misinformation on social media are exacerbated by algorithms that encourage viral sharing”. Platforms encourage clicks and likes, not artistic or civic values. #Fakenews...

“A few providers are responsible for the majority of referral traffic, and just 5 companies take in almost 80% of global mobile advertising revenue – with Google and Facebook getting 90% of the growth”.

We will see debate on the aligning of societies values to the use of AI.

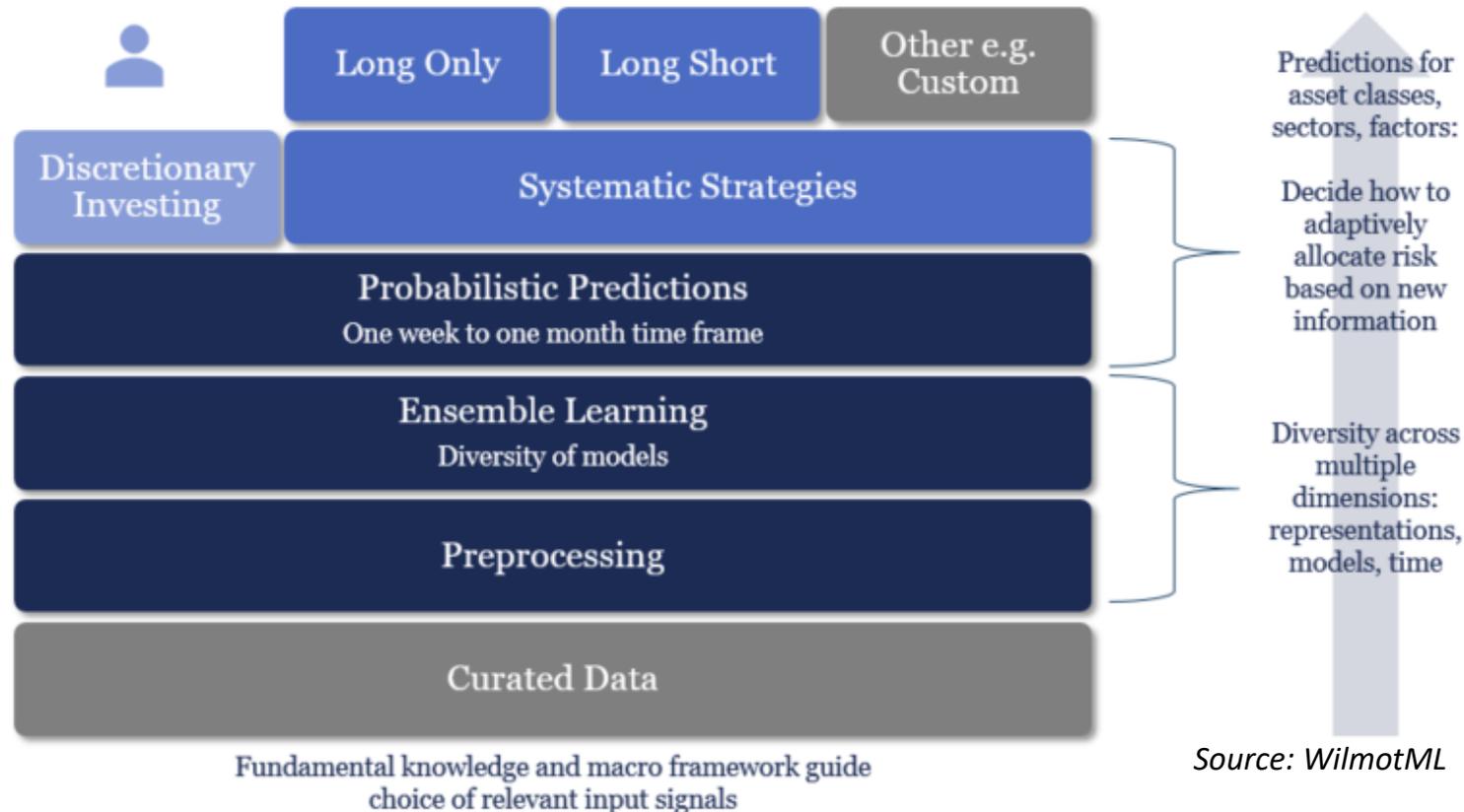
Financial markets have used machines for years.

GAIA: The Global AI Allocator

Outputs can be either discretionary or systematic

Human PM/Trader

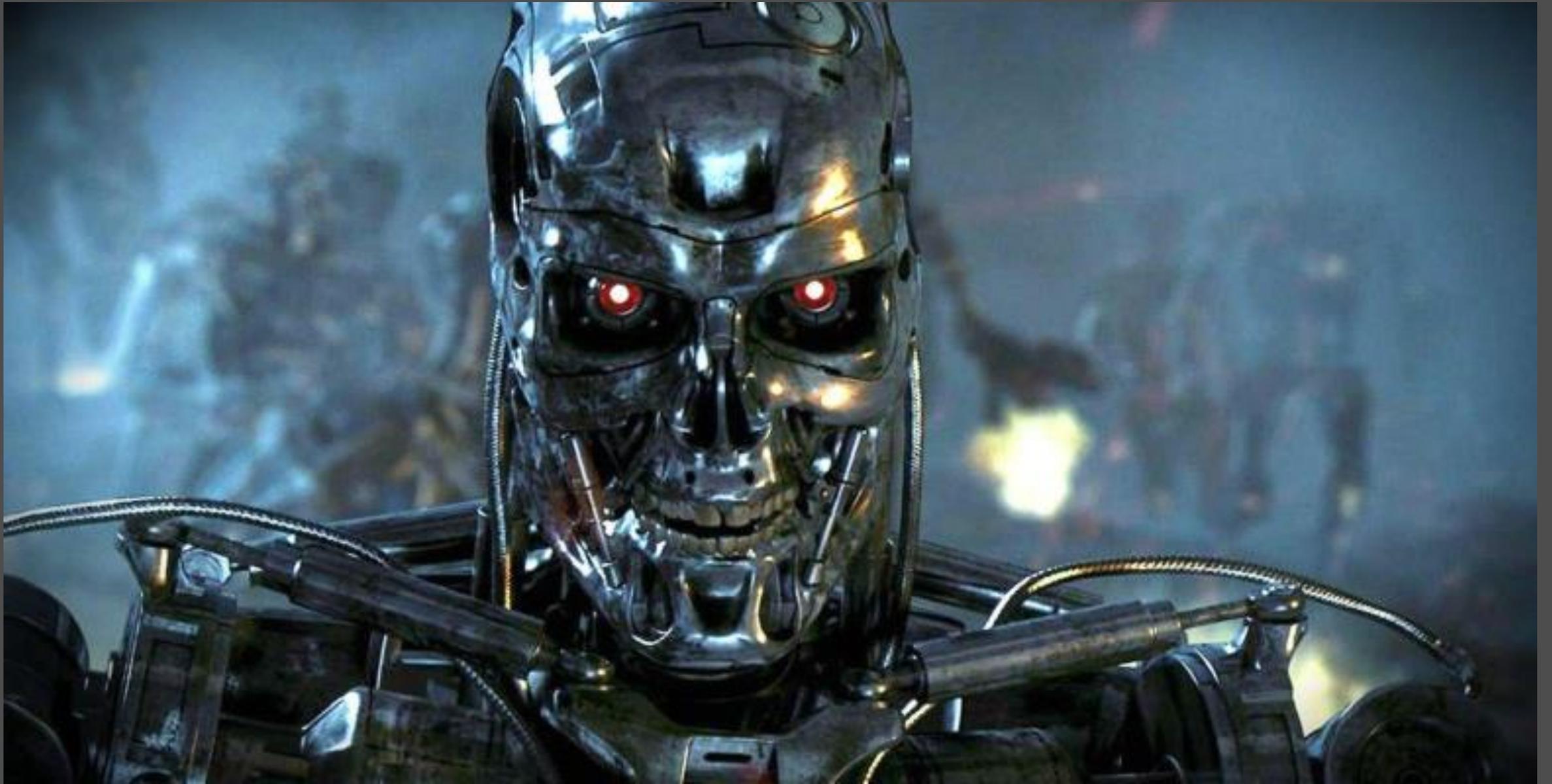
Machine Driven Strategies



Source: WilmotML

What could possibly go wrong?

Kiwi
bank.



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