

July 2019

New Zealand Economic Outlook

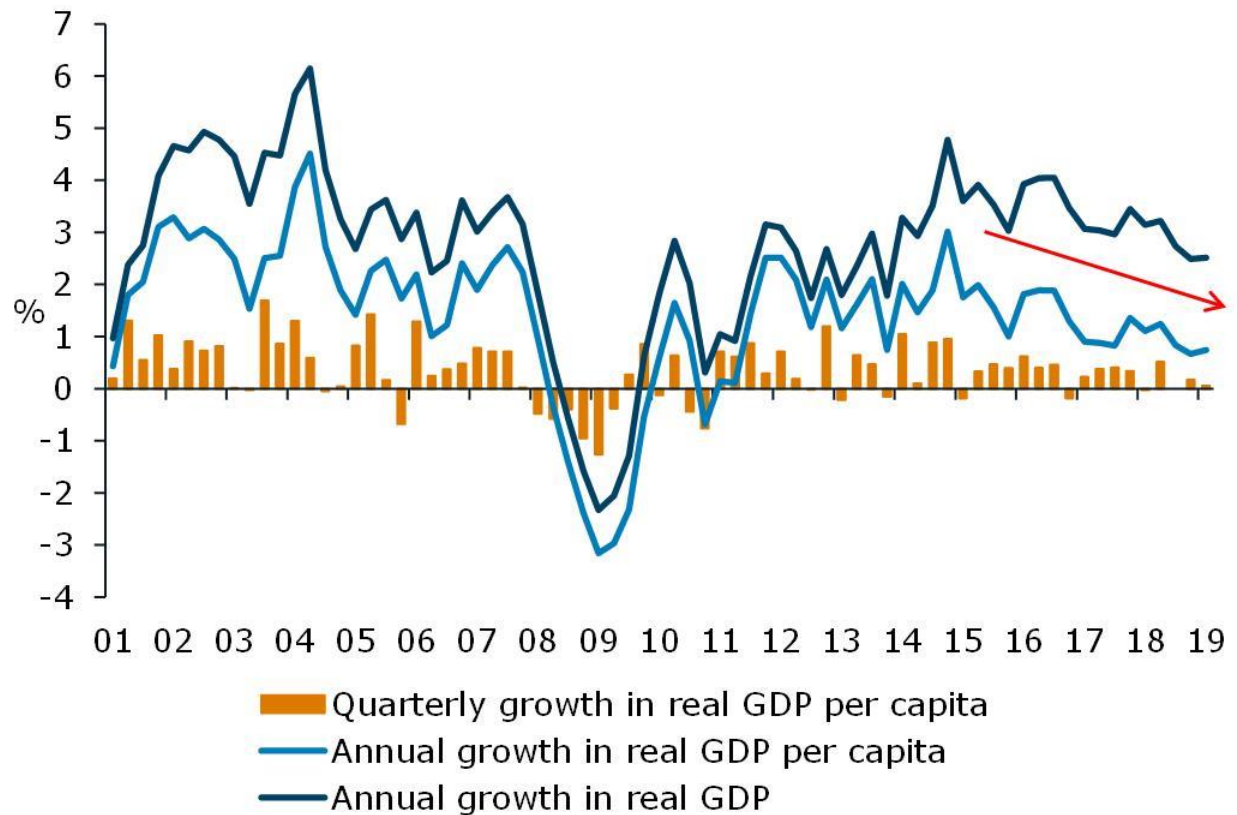
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Real GDP growth: headline and per capita

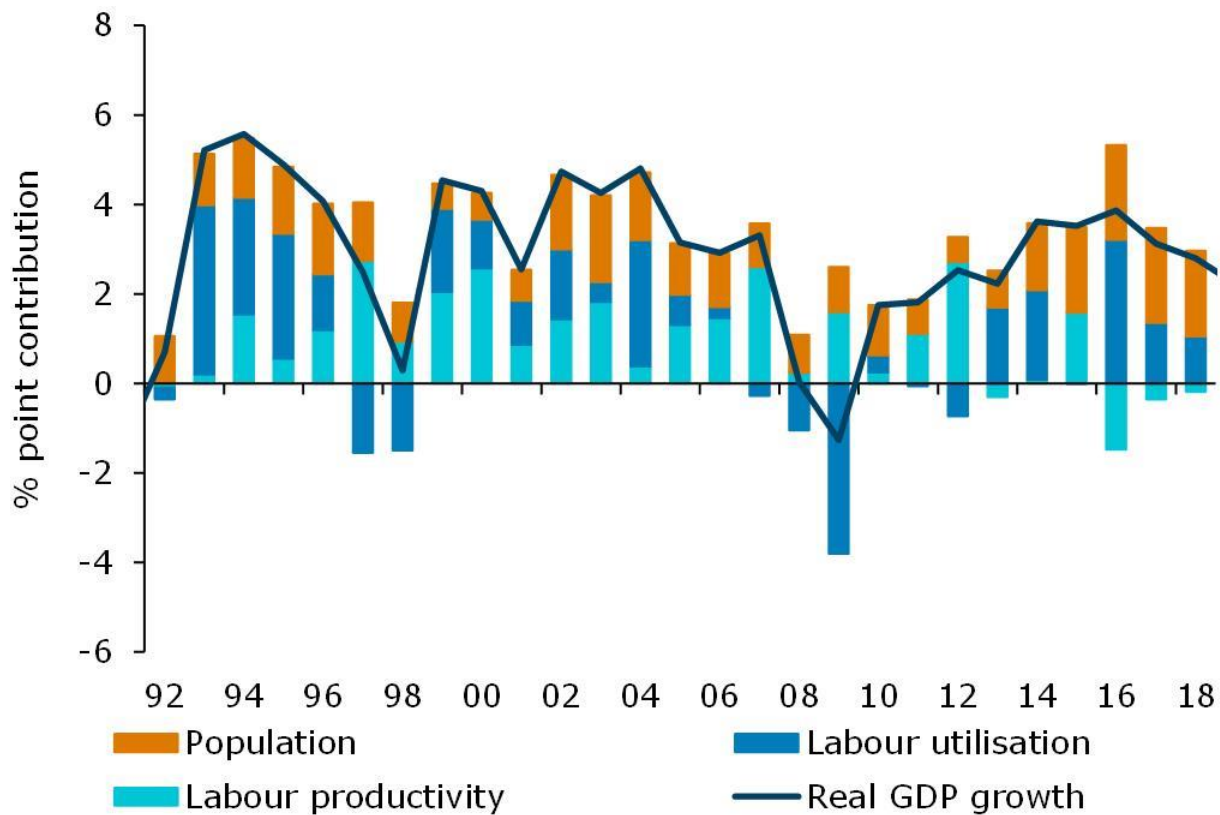


Gradual
slowdown

- The economy has been slowing for years
- Population growth is providing the bulk of impetus

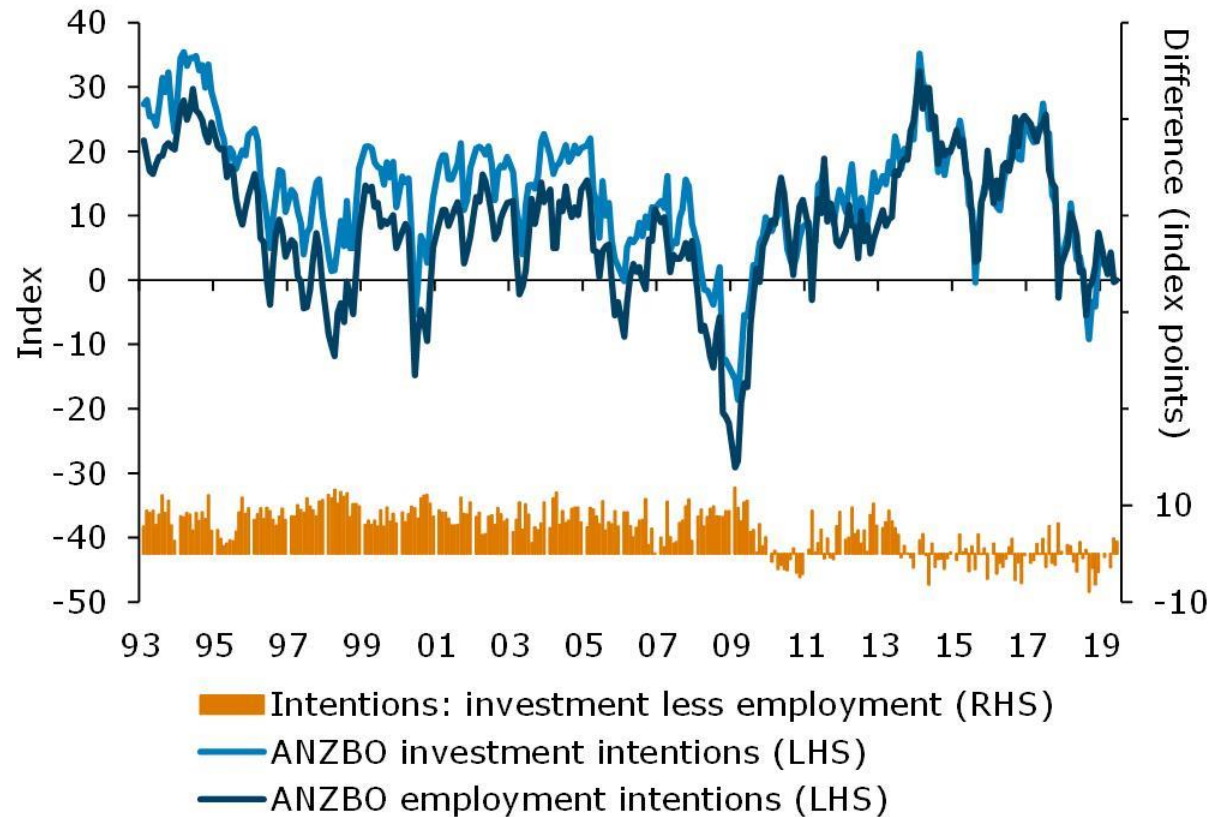
Brute force
growth

Contributions to economic growth



Why?

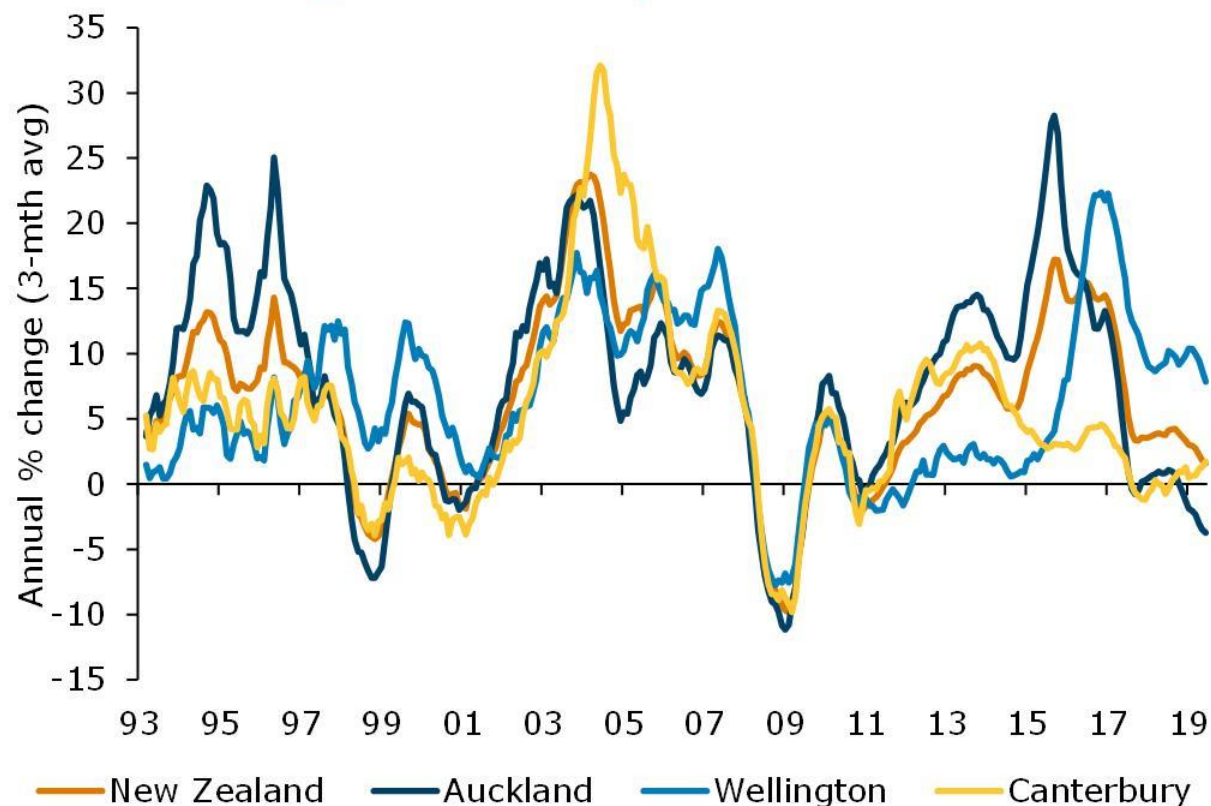
Firms have preferred hiring to investing this cycle



Party's
over

(Some
haven't
realised
yet)

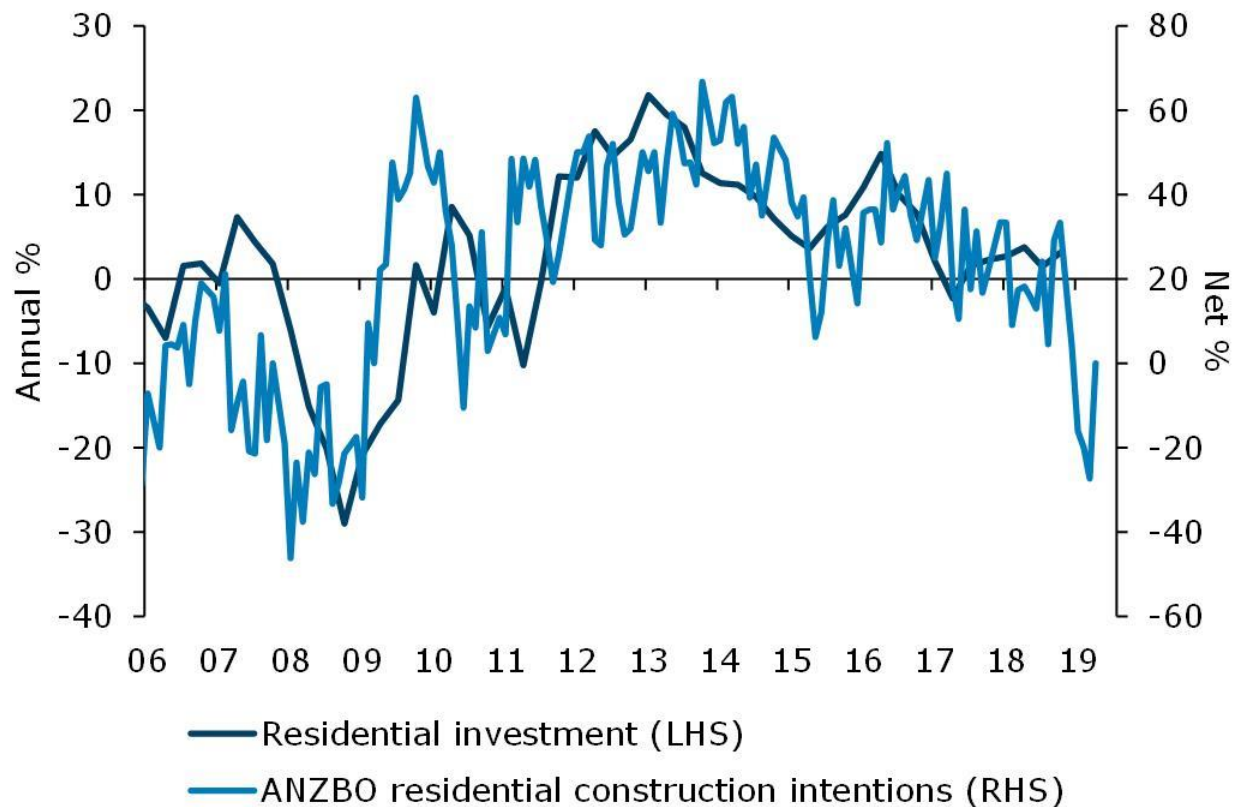
Regional house price inflation



- Mixed picture around the country but cooling
- New policies will keep the market capped
- Population growth and low interest rates provide a floor

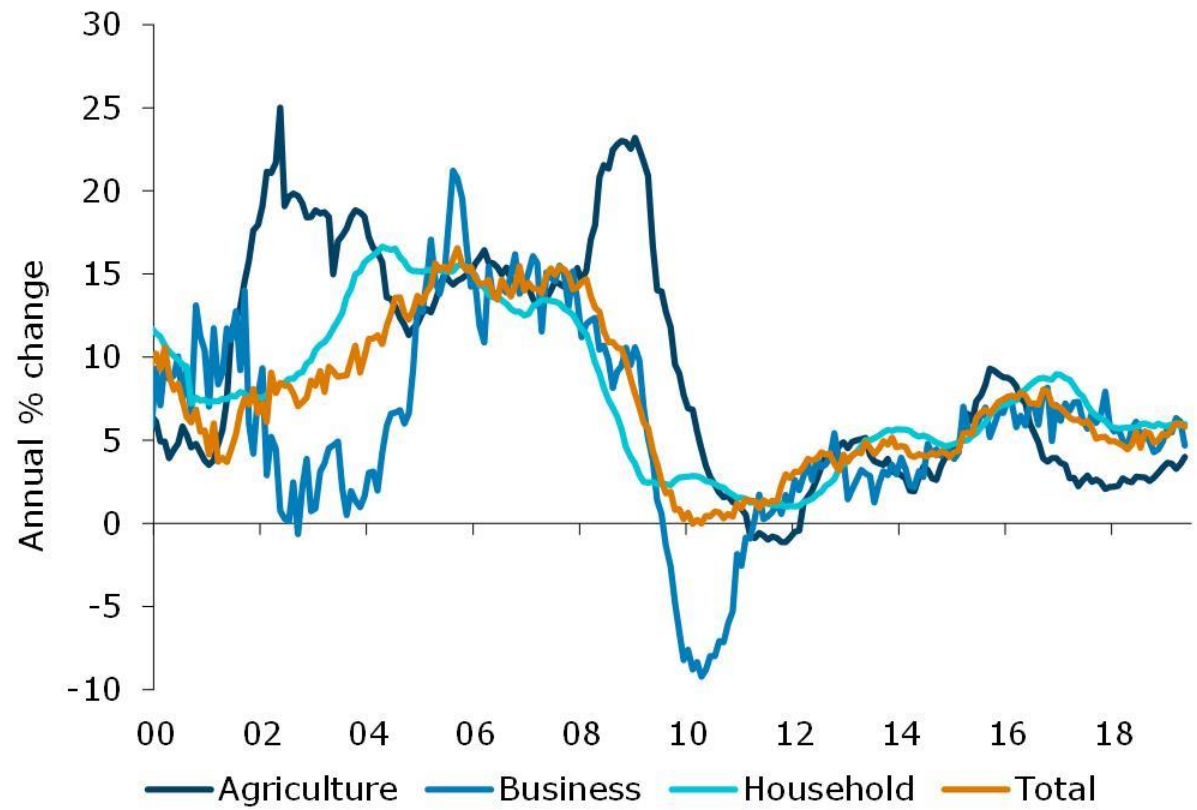
Noise or
signal?

Residential construction intentions & residential investment

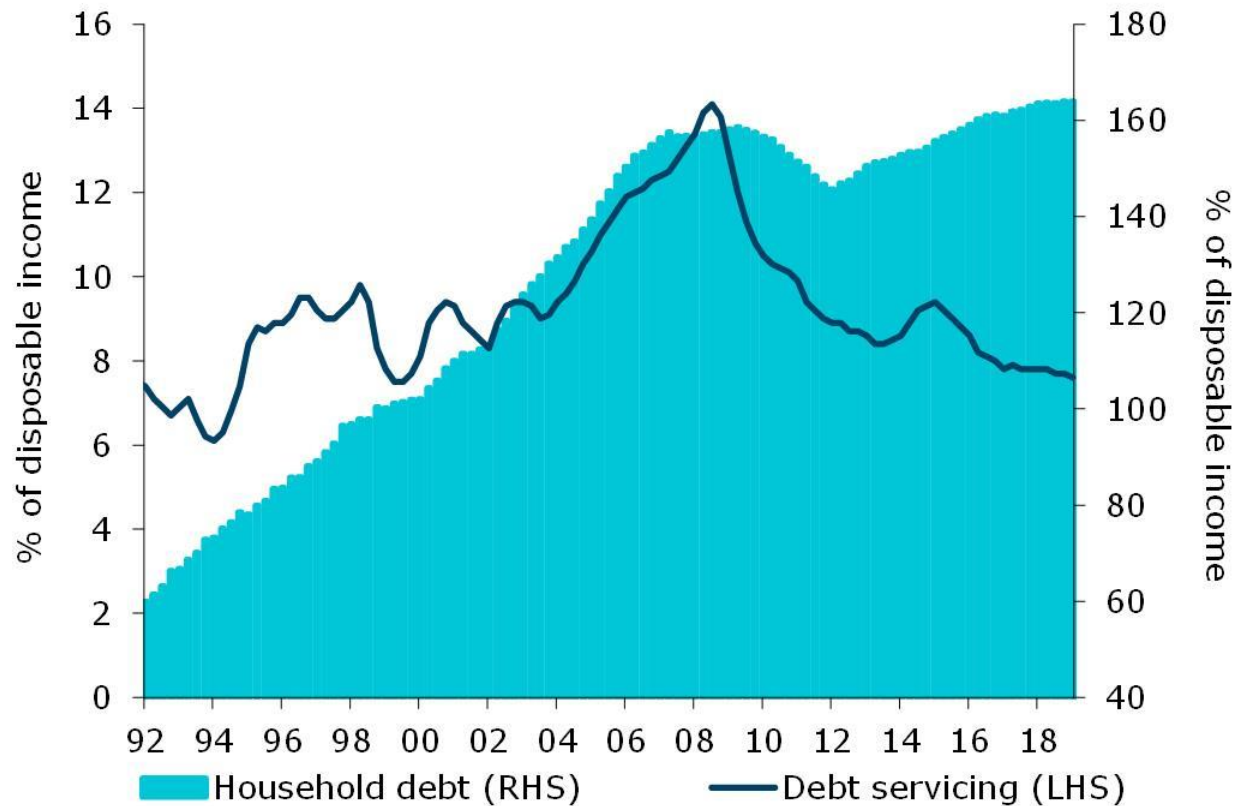


Dear
prudence

Sectoral credit growth



Household debt and serviceability

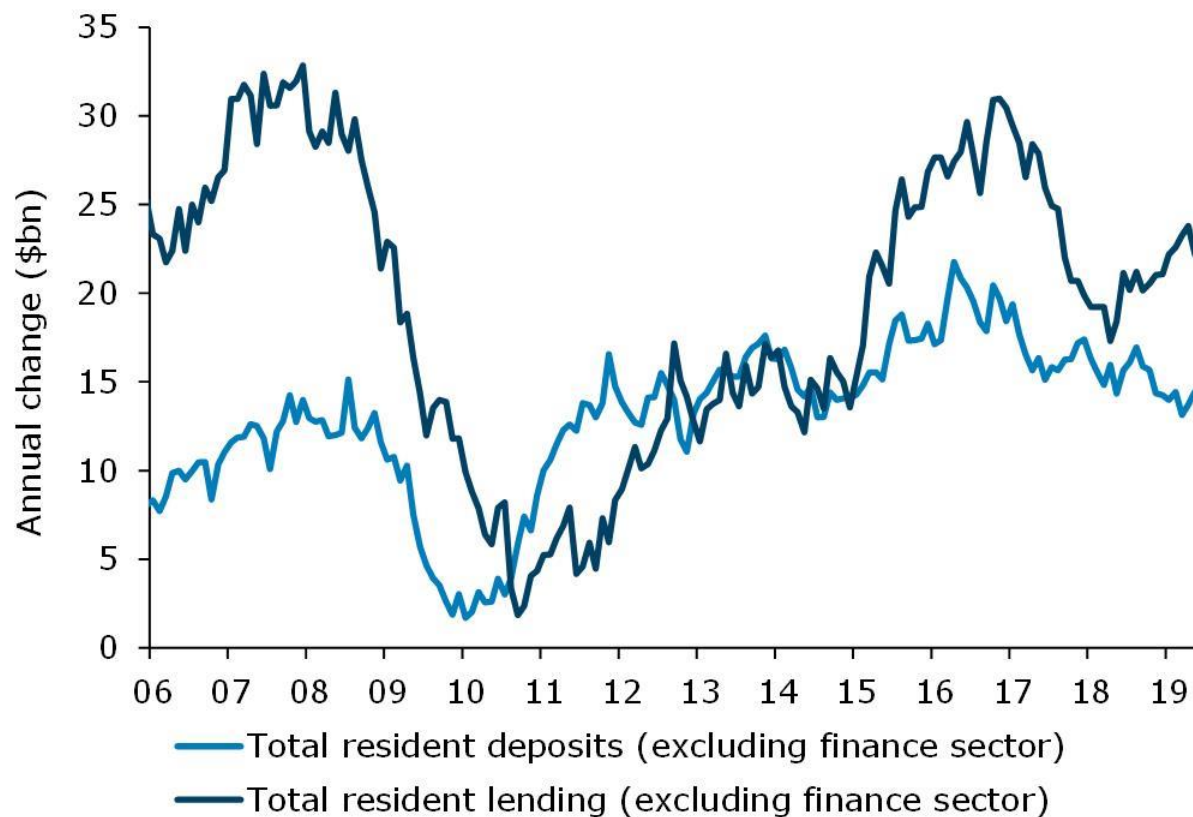


Glass
half full

- At these debt levels some households would be very vulnerable if interest rates were to rise (for whatever reason)

Bank
funding gap
matters

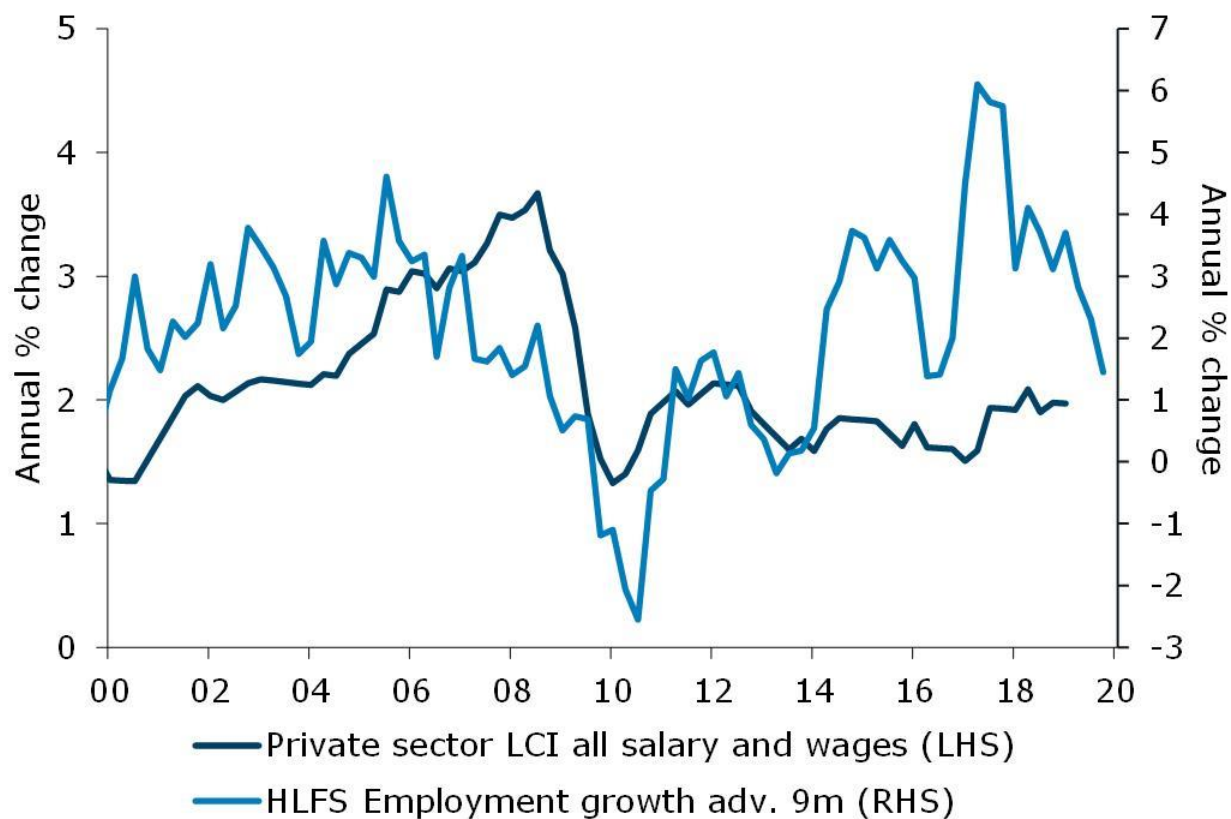
Bank funding gap



- Very different game this cycle versus last
- Funding gap is threatening to open up again

Workers
being ripped
off?

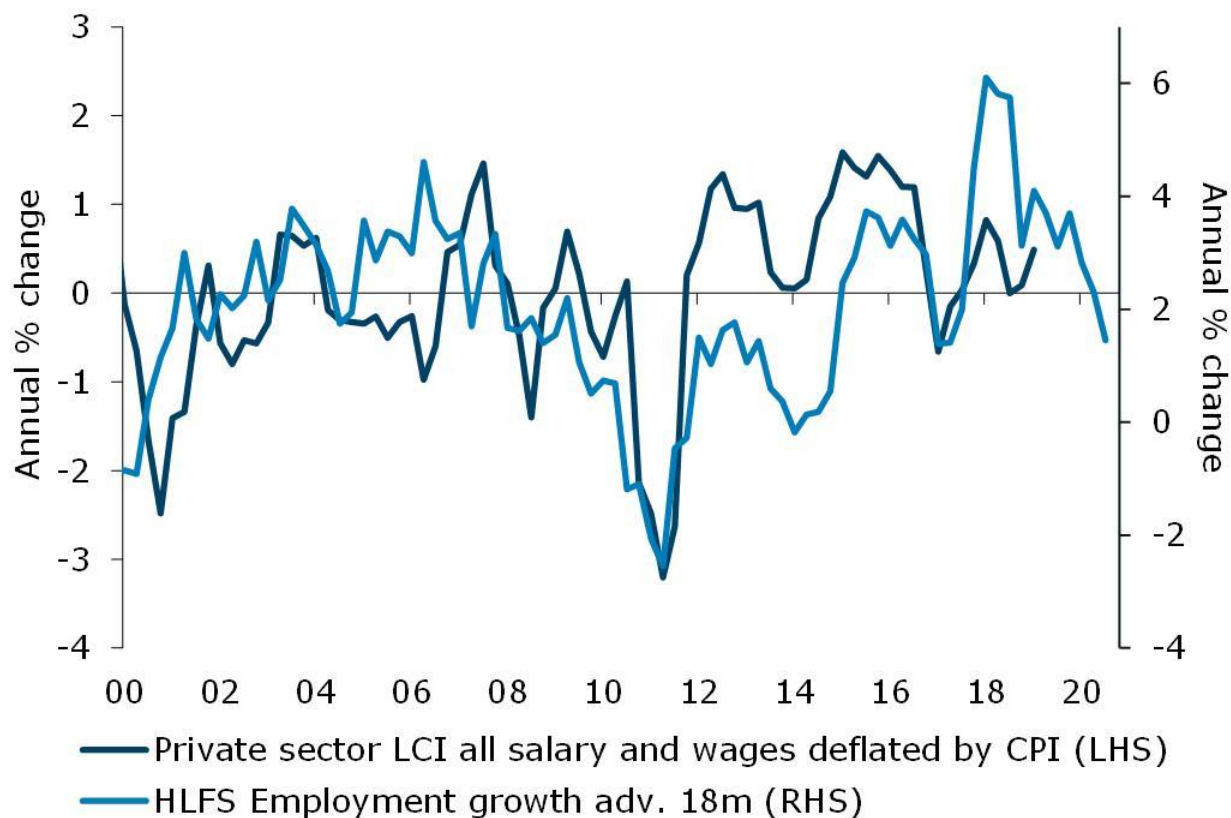
Employment growth and nominal wage inflation



- Nominal wage inflation looks oddly low...

Households
doing okay
for now

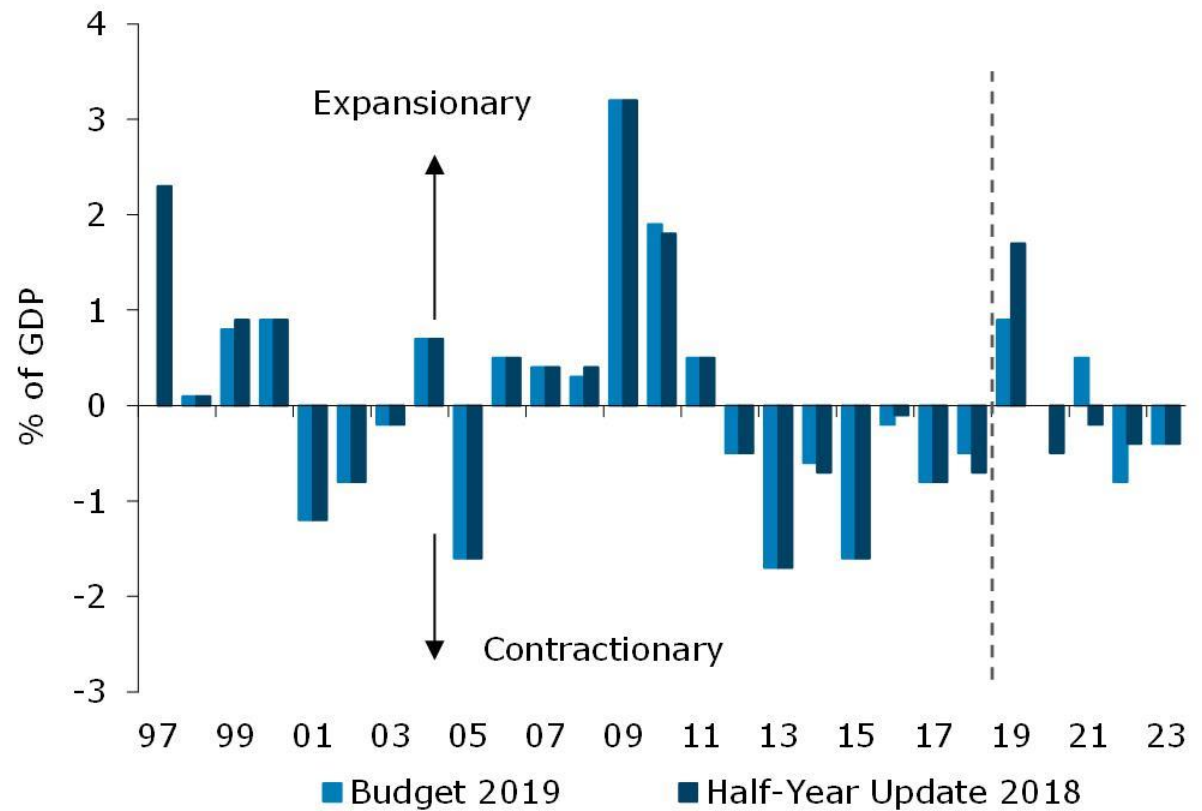
Employment growth and real wage inflation



- Despite weak nominal wage inflation, *real* wage growth has been quite good.
- Hard to sustain without productivity growth of course.



Core crown fiscal impulse



- Short and sweet



The Wellbeing Budget

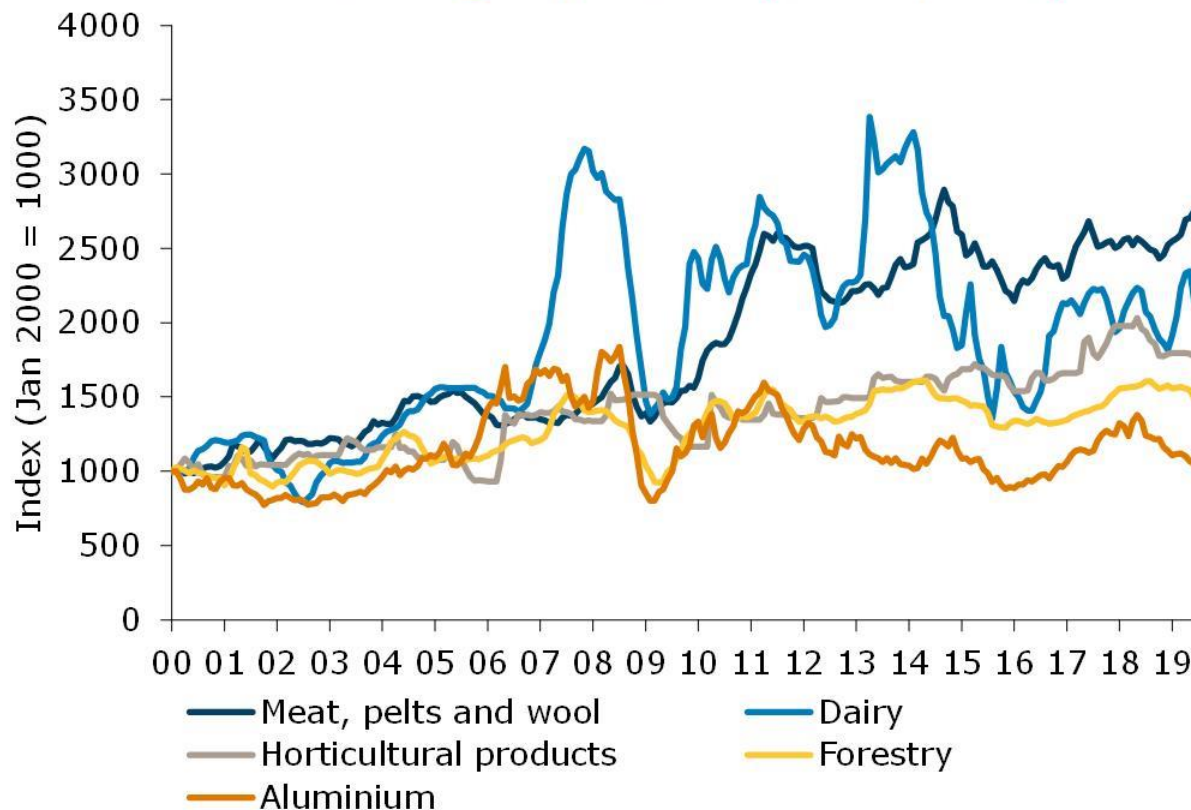
- Focus on wellbeing doesn't change overall fiscal settings in the short term. Currently new spending is being constrained by the 20% debt target.
- The Wellbeing focus is about the lens through which spending decisions are made: the Living Standards Framework (LSF).
- In the long run it might change comfort levels (both the public and politicians) around higher govt debt and spending. But NZ's Public Finance Act has been very successful at ensuring prudent fiscal strategies – for good and ill.
- There's still a fair amount of subjectivity involved when using the LSF (and therefore the Budget decision-making process).
- Has seen increased resource going into data collection and measuring inputs into the LSF.



A diversified
commodity
lift

ANZ Commodity Price Index

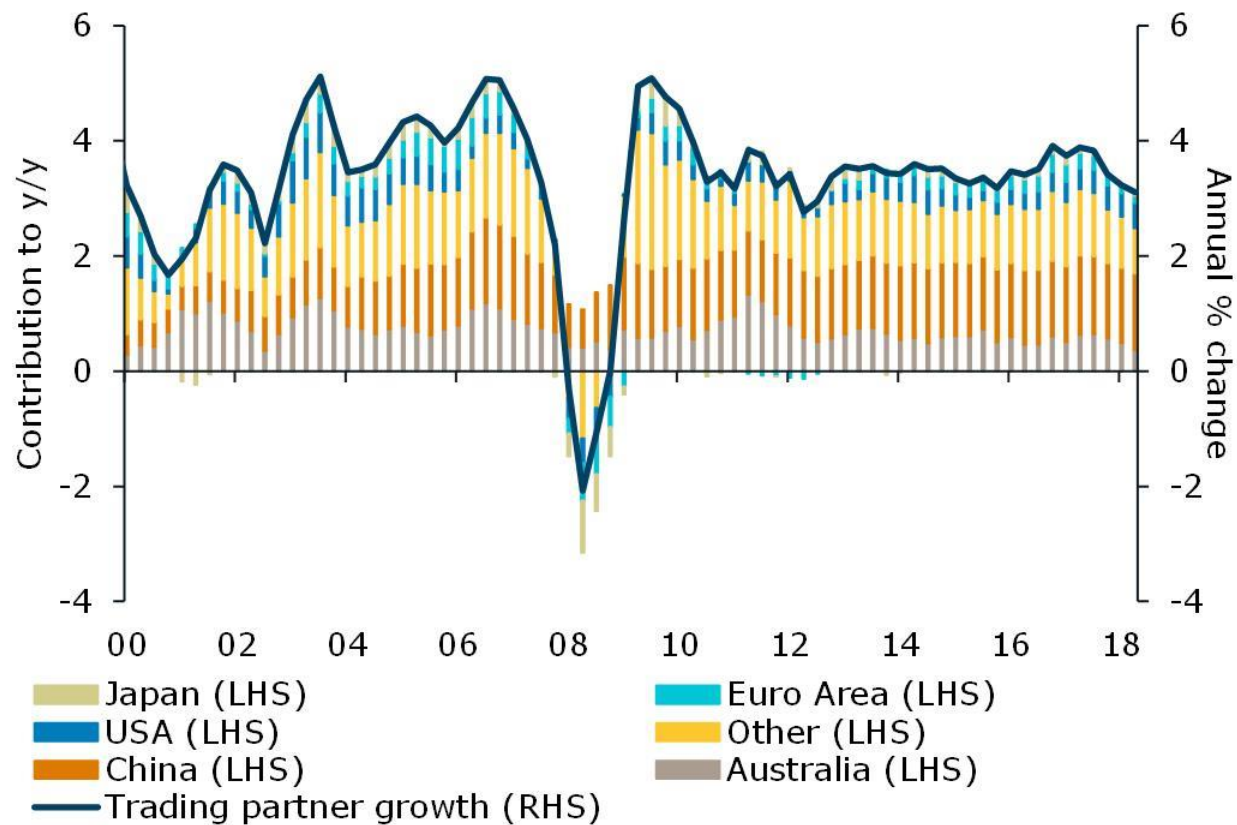
Selected sub group indices (world prices)



- Watch this space

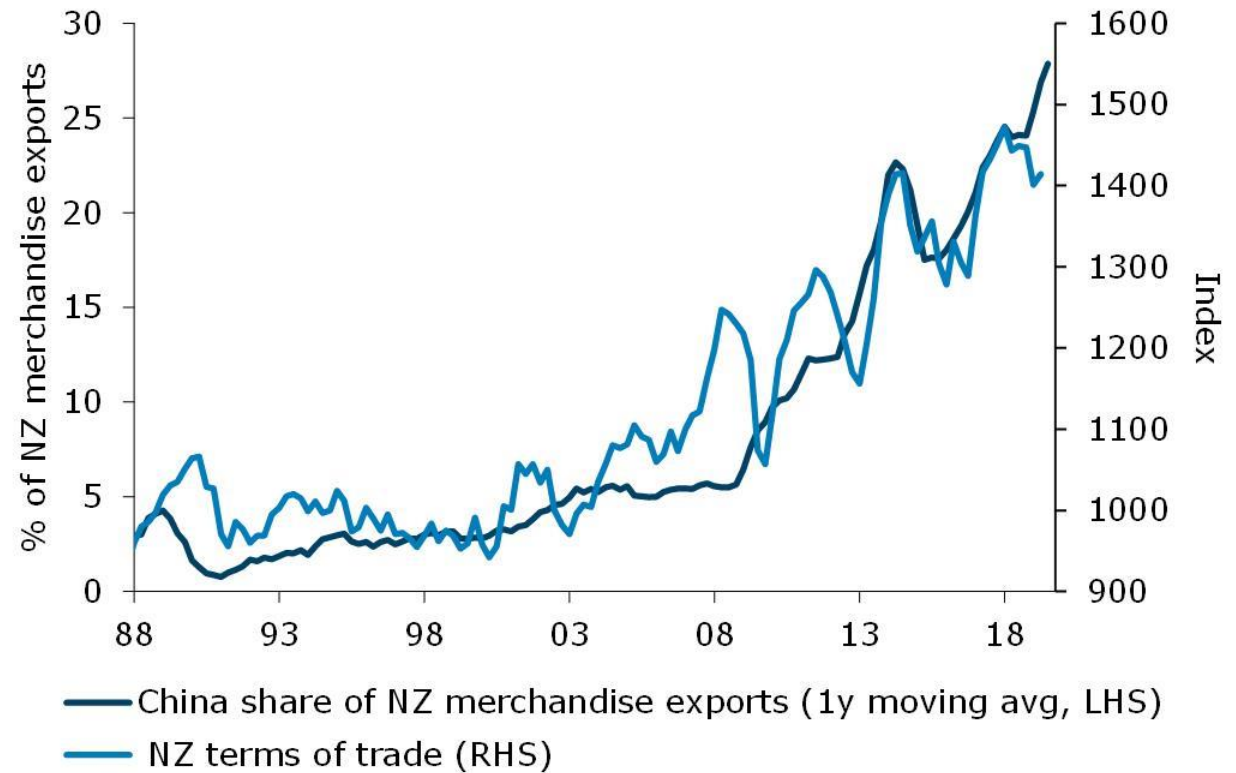
Global risks
are real

Trading partner growth



- The global slowdown is pretty much across the board.

New Zealand terms of trade

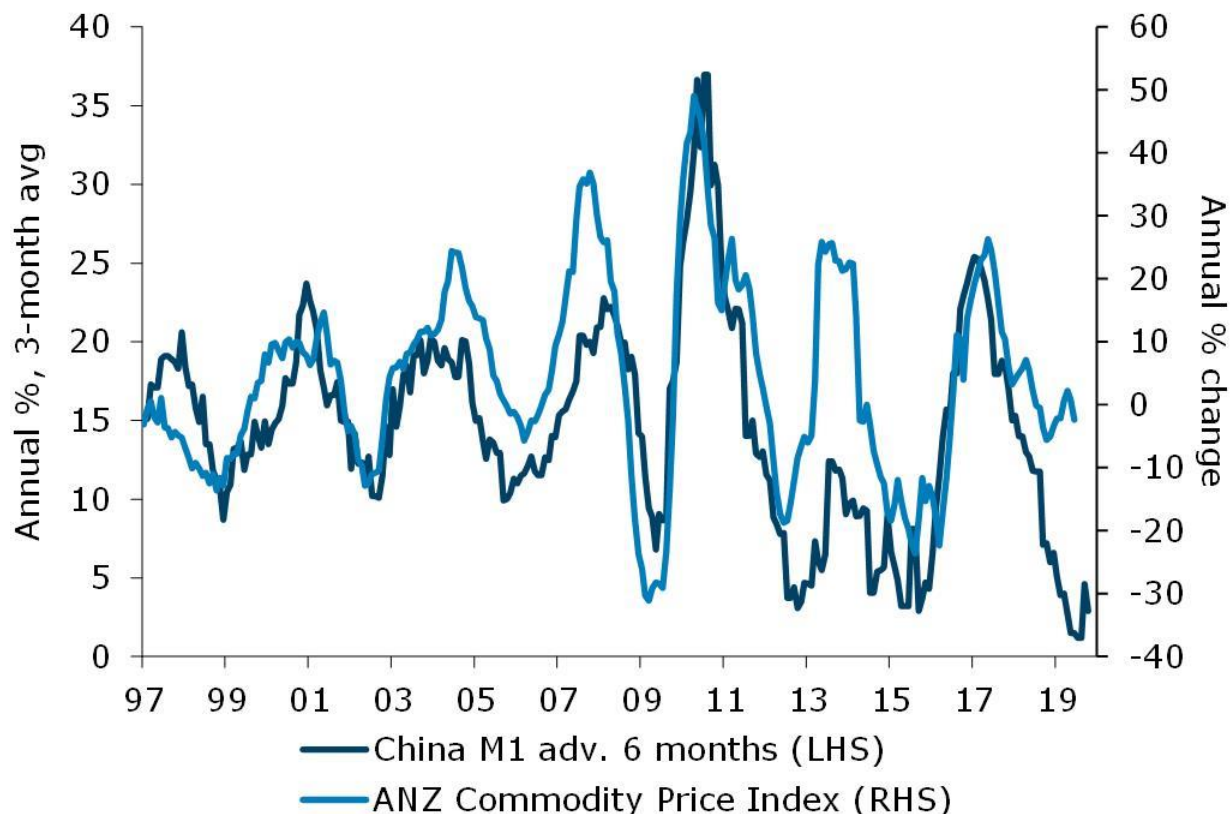


Quintupling
down

- Terms of trade boom has been diversified by product but not by market: it's all about China

Defying
gravity

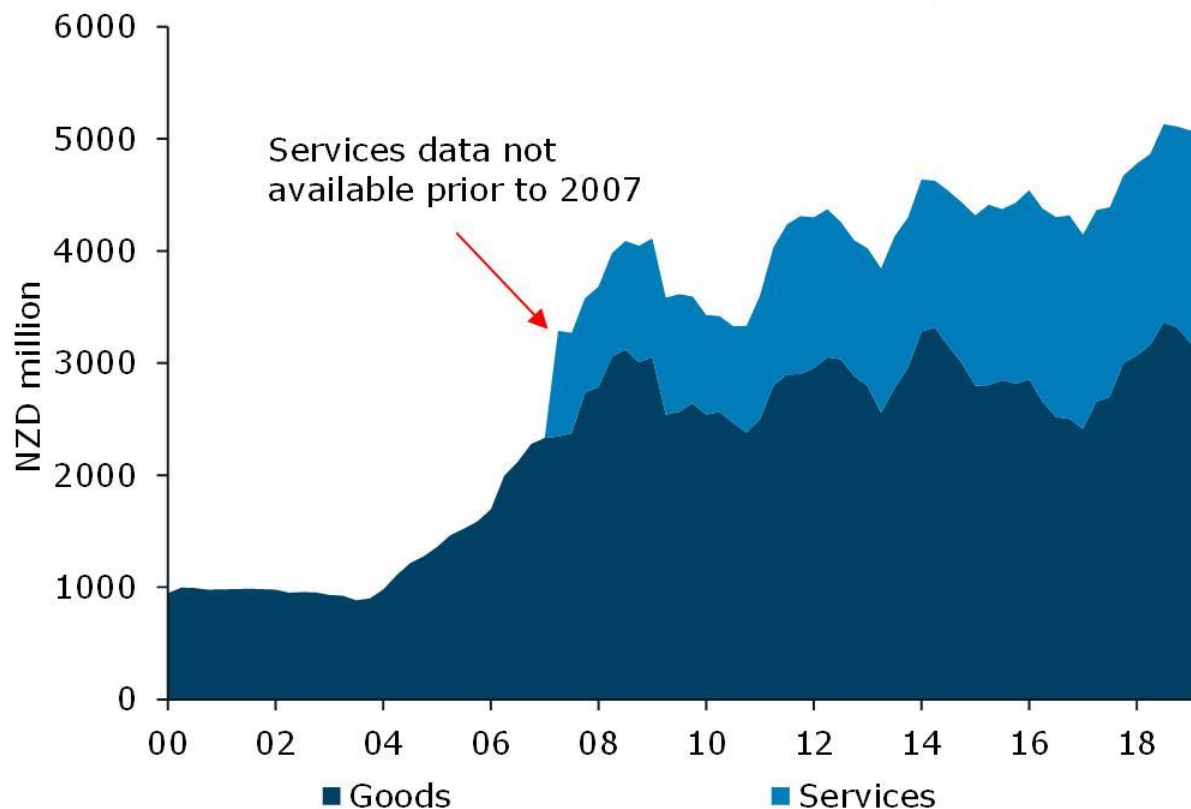
China M1 growth and NZ commodity price cycles



- Note the 6-month lead – we can't say we weren't warned
- But M1 growth has bottomed as stimulus measures take hold, so maybe we'll dodge this bullet.

Singapore links

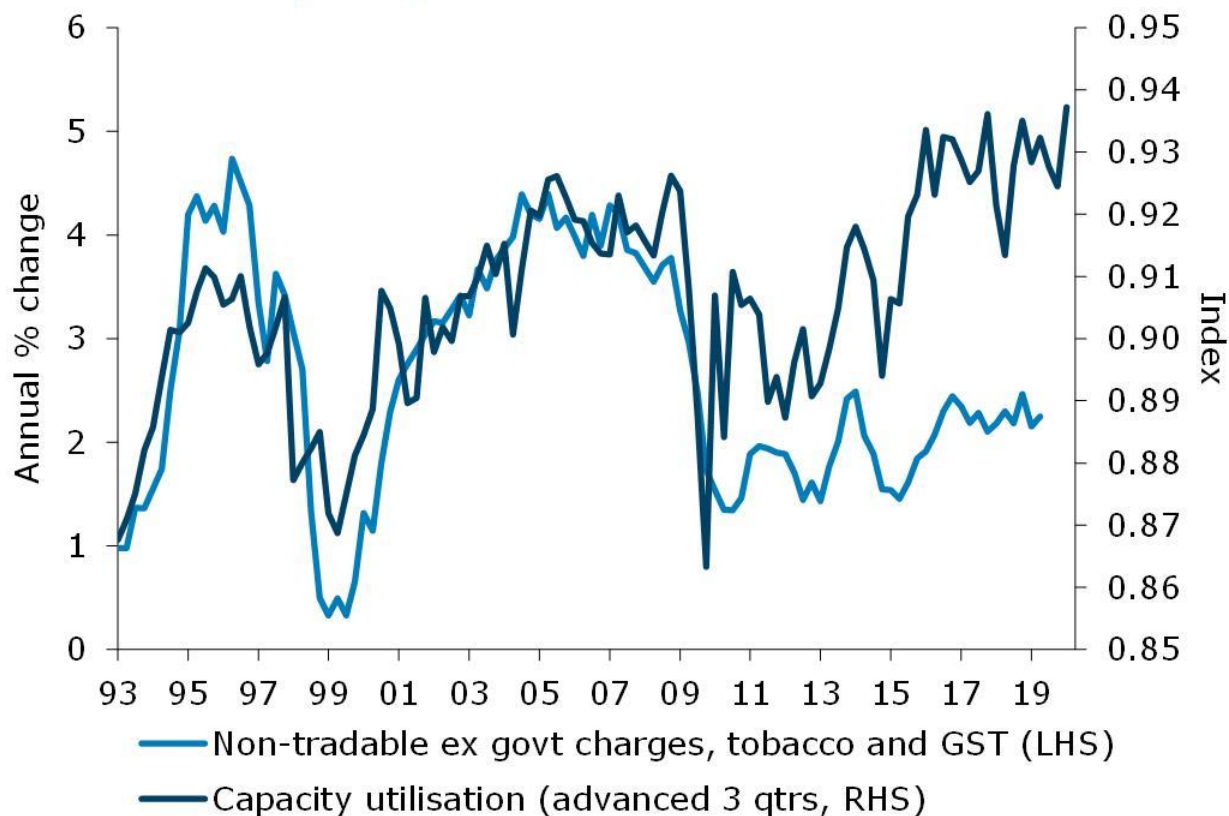
Closer Economic Partnership



- Came into force in 2001
- Singapore and NZ had NZ\$5.2 billion of two-way trade and \$5.1 billion of two-way direct investment in the year ending December 2018.
- Upgrade signed in May 2019 improves market access and modernises existing agreement.

Where's
the inflation?

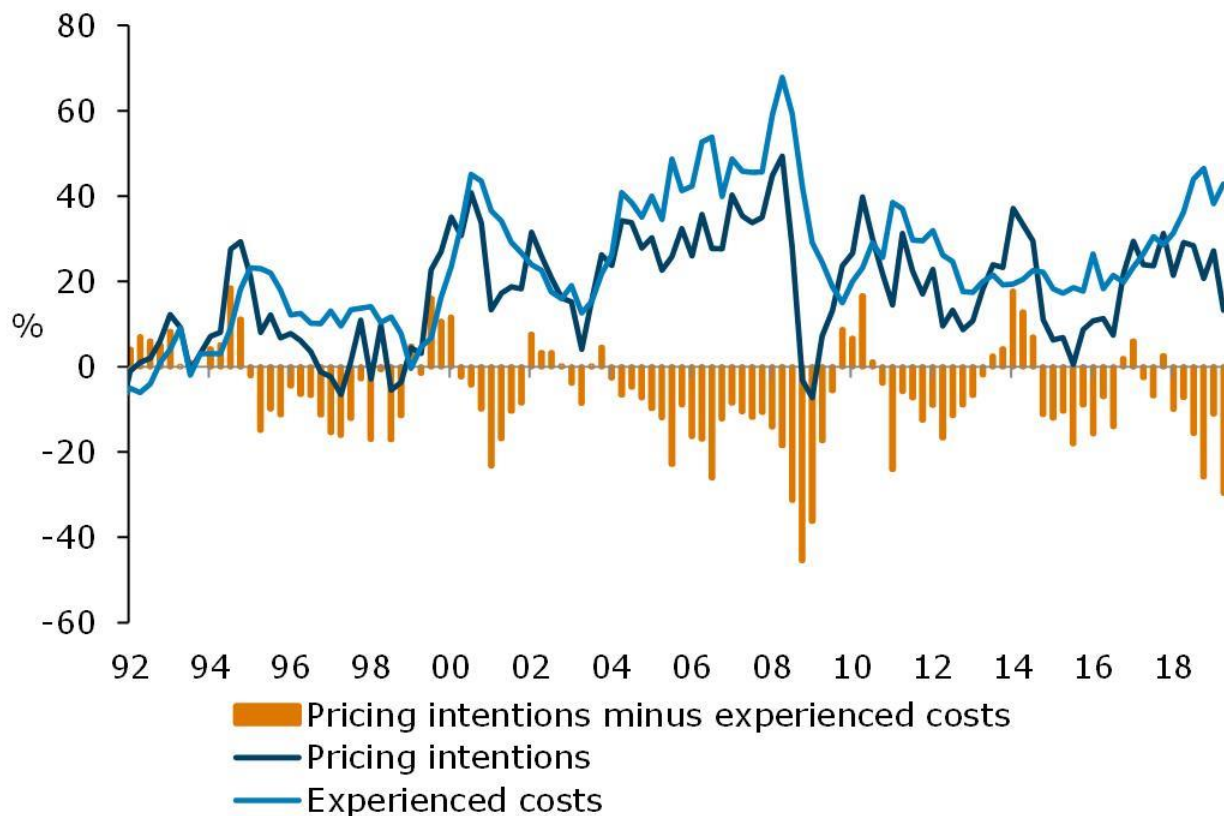
Capacity indicators and inflation



- This cycle is different
- Getting core inflation up is proving to be hard work
- Stretch in the economy appears to have peaked

Margin
squeeze

QSBO: experienced costs and pricing intentions



- Pricing intentions are now easing despite evident cost pressures.

Still too optimistic

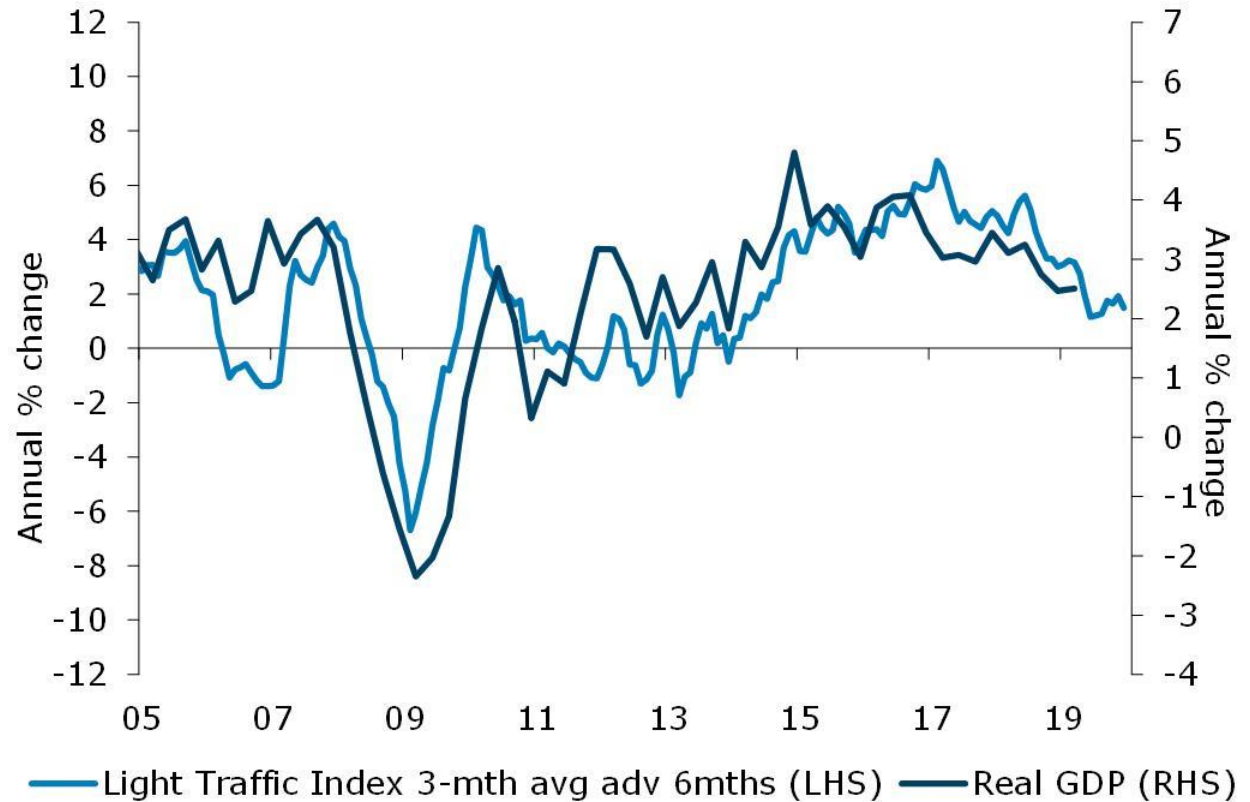
GDP forecasts



Source: Statistics NZ, ANZ, RBNZ

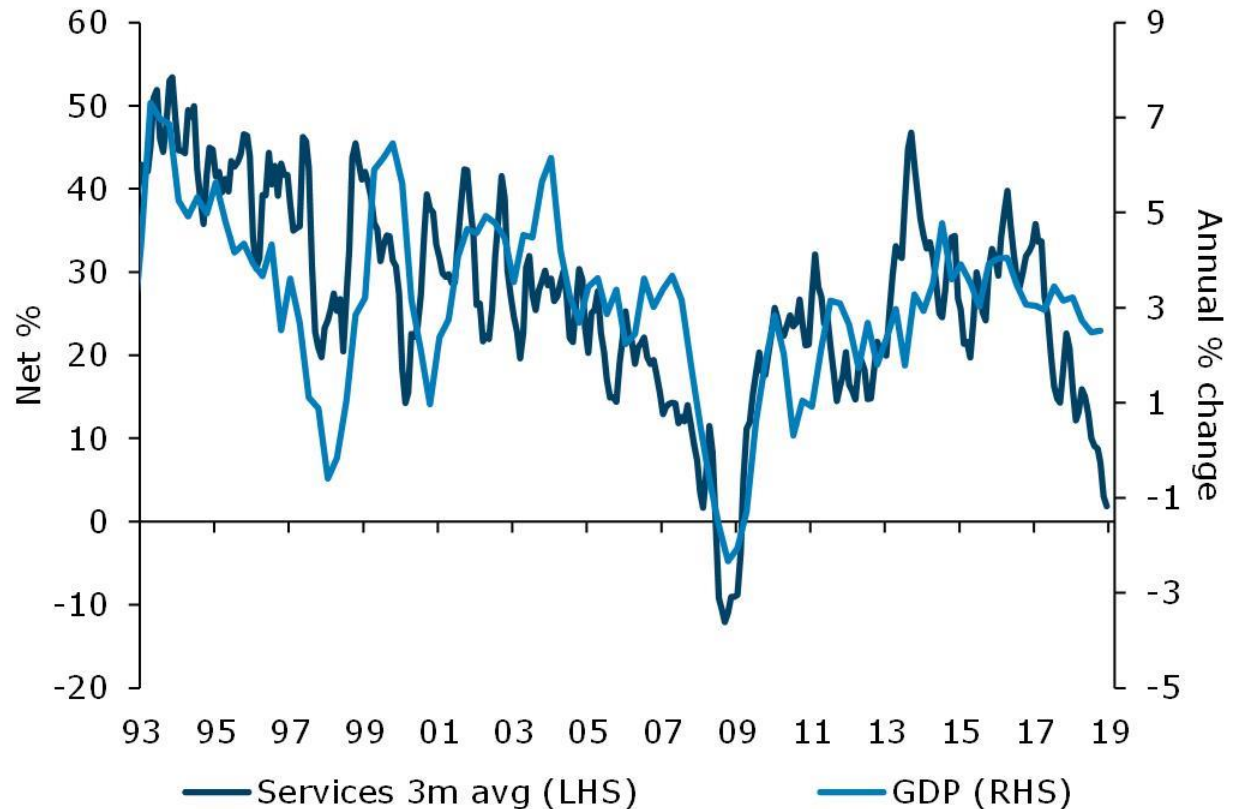


ANZ Light Traffic Index and GDP



- Tentative signs the economy is finding a floor

Services sector capacity utilisation and GDP growth

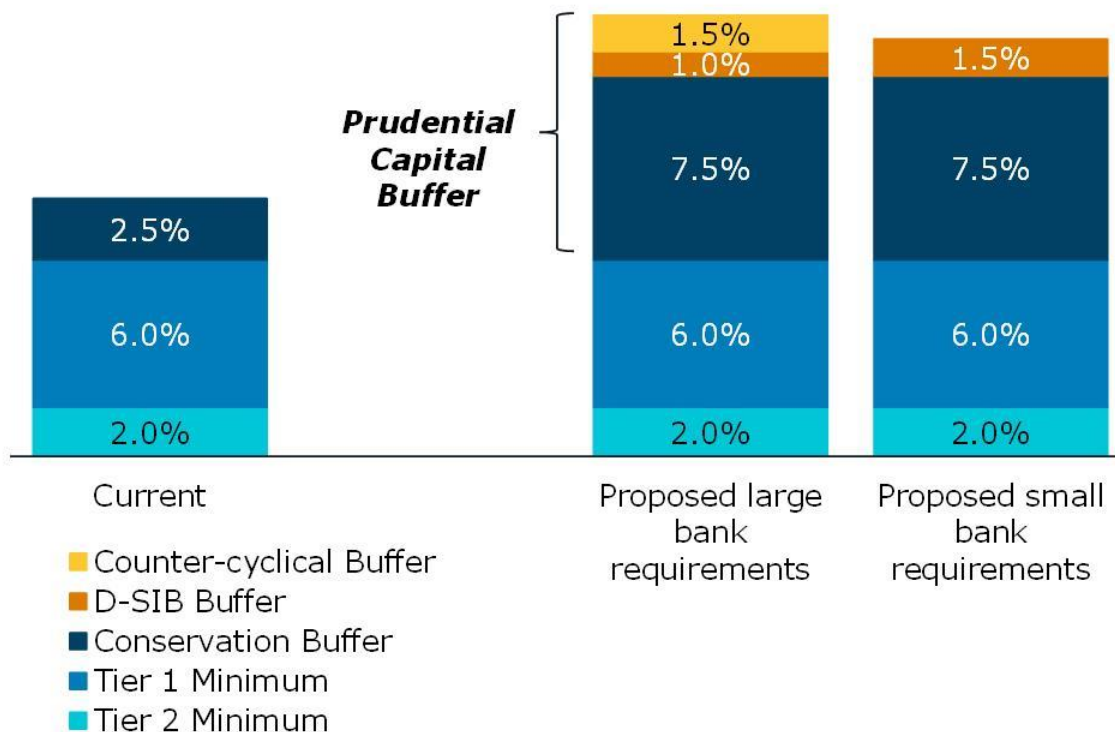


- Business survey activity measures yet to bottom but probably overly impacted by policy uncertainty
- Let's hope so

Source: Statistics NZ, ANZ Research

Tighter financial conditions on the way

Proposed changes to RBNZ capital rules



- Impacts are very difficult to estimate but will logically result in a combination of:
 - Lower returns for shareholders (no macro impact)
 - Higher interest rates (monetary policy can offset)
 - Reduced availability of capital (ouch)

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