New Zealand Economic Outlook

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Real GDP growth: headline and per capita

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

Source: Statistics NZ
Brute force growth

Contributions to economic growth

% point contribution

-6 -4 -2 0 2 4 6 8

92 94 96 98 00 02 04 06 08 10 12 14 16 18

Population

Labour utilisation

Labour productivity

Real GDP growth

Source: Statistics NZ, ANZ
Firms have preferred hiring to investing this cycle

Why?

Source: ANZ Research
Party’s over

(Some haven’t realised yet)

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

Source: REINZ
Residential construction intentions & residential investment

Noise or signal?

Source: ANZ, Statistics NZ
Dear prudence

Sectoral credit growth

Source: RBNZ
Household debt and serviceability

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

Source: RBNZ
Bank funding gap matters

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

Source: RBNZ
Workers being ripped off?

- Nominal wage inflation looks oddly low...

Source: Statistics NZ, ANZ Research
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.

Source: Statistics NZ, ANZ Research
Core crown fiscal impulse

- Short and sweet

Source: NZ Treasury
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

- Watch this space

Source: ANZ Research
Global risks are real

- The global slowdown is pretty much across the board.

Source: Haver Analytics, RBNZ, ANZ Research
New Zealand terms of trade

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

Source: Statistics NZ, ANZ Research
Defying gravity

- 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.
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.

Source: Stats NZ, ANZ Research
- This cycle is different
- Getting core inflation up is proving to be hard work
- Stretch in the economy appears to have peaked

Source: ANZ, QSBO, Statistics NZ
• Pricing intentions are now easing despite evident cost pressures.

Source: NZIER, ANZ Research
GDP forecasts

Still too optimistic

Source: Statistics NZ, ANZ, RBNZ
ANZ Light Traffic Index and GDP

- Tentative signs the economy is finding a floor

Source: ANZ Research, NZ Transport Agency, Statistics NZ
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
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)

Source: RBNZ
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