

The Next Five Years

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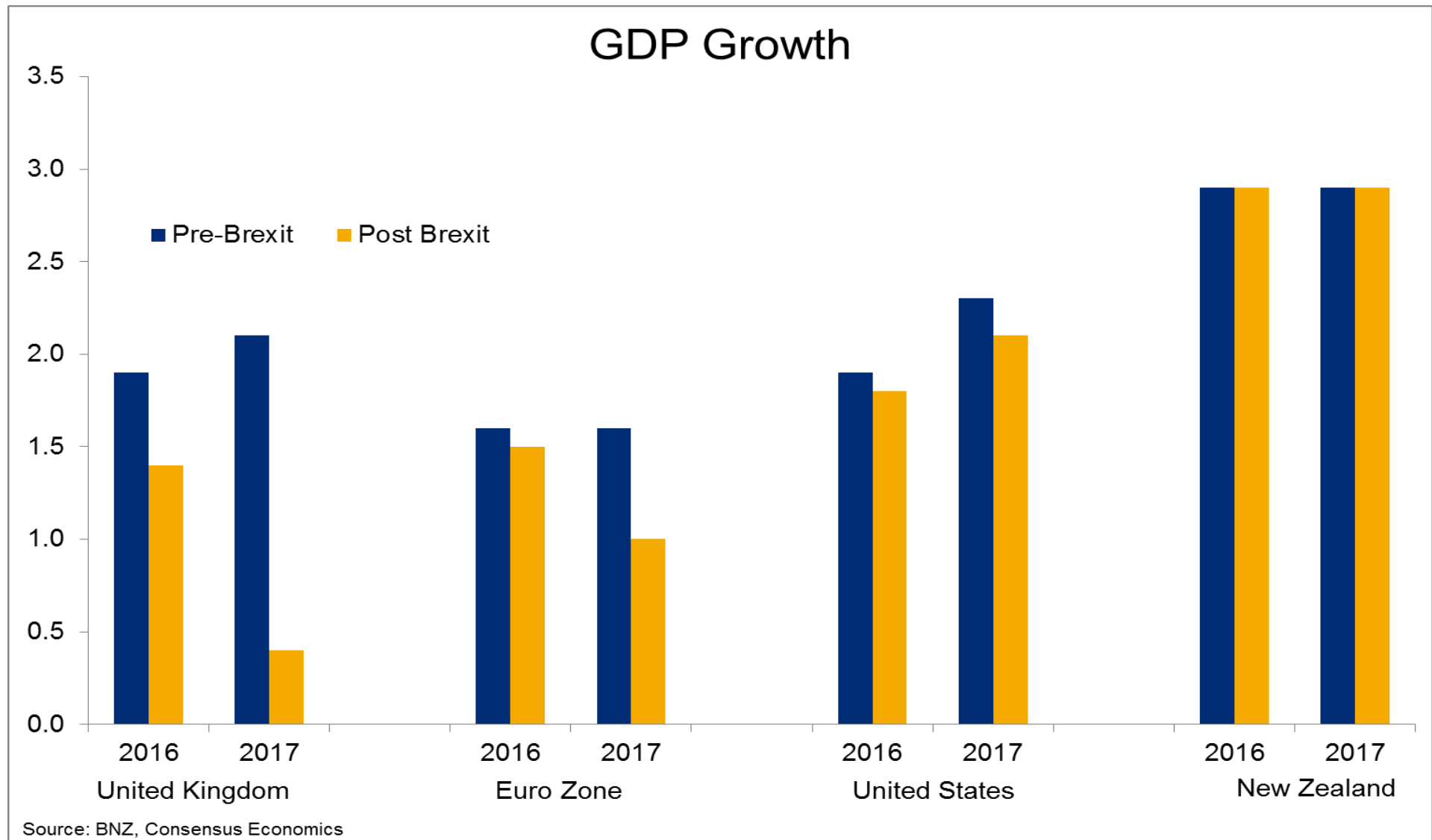
The Big Issues Internationally

- ***Brexit***
- ***China***
- ***The Fed***
- ***Overvalued asset prices***
- ***Negative interest rates***

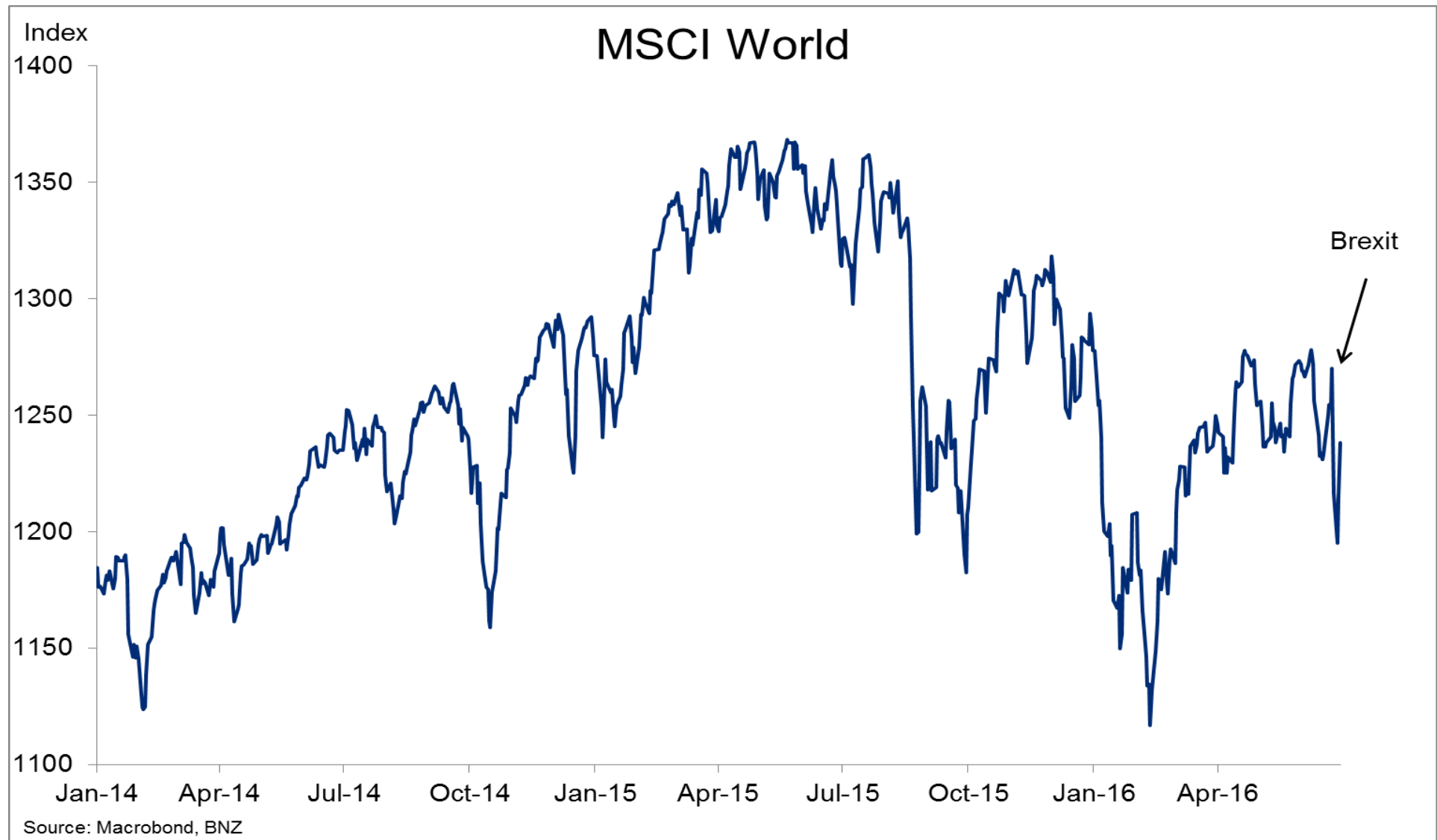
Brexit

- ***It's a UK problem***
- ***Then an EU problem***
- ***And not really a global problem - yet***

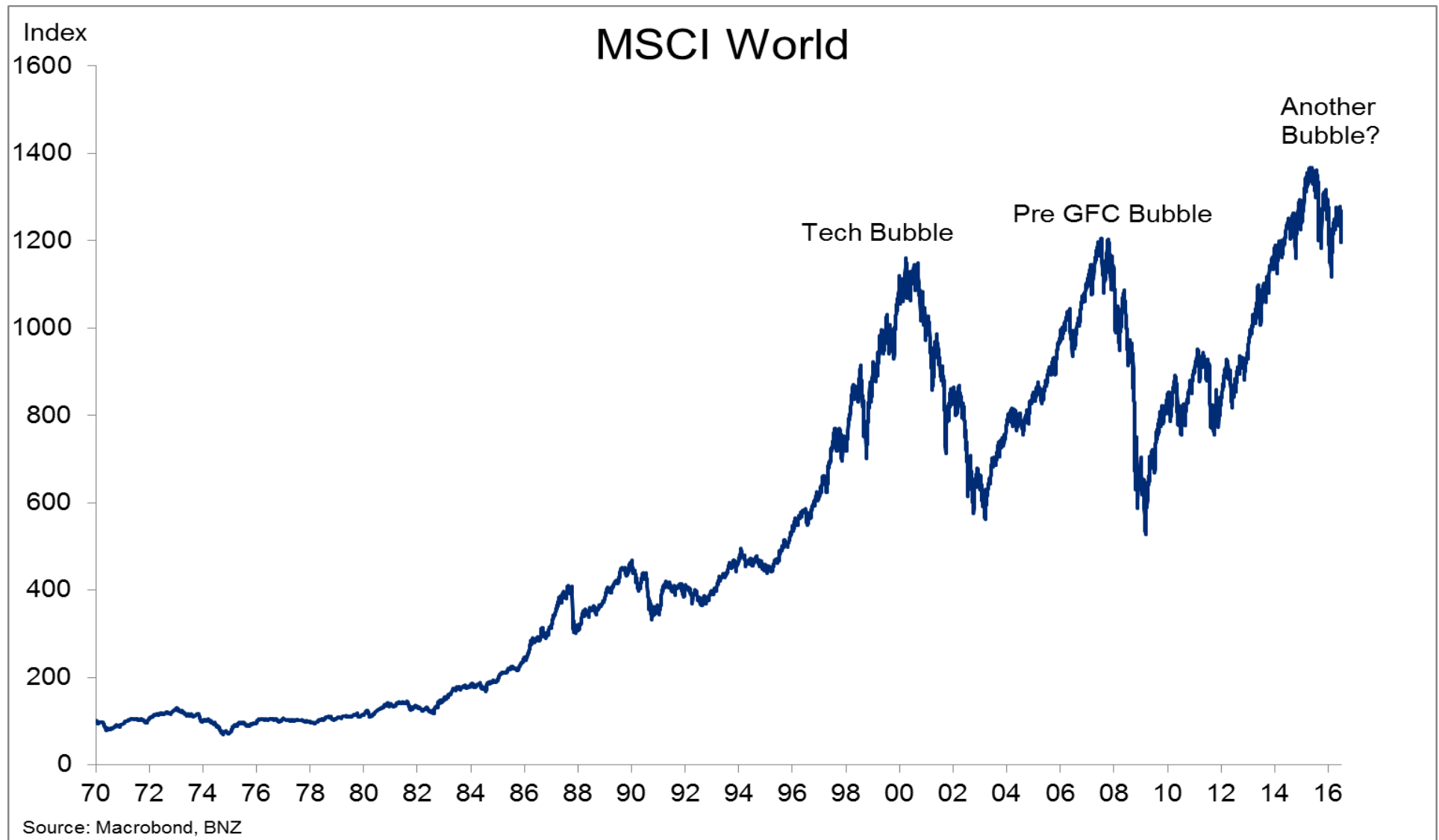
Forecast Changes Post – Brexit



Brexit Bursting the Bubble?



Brexit Bursting the Bubble?



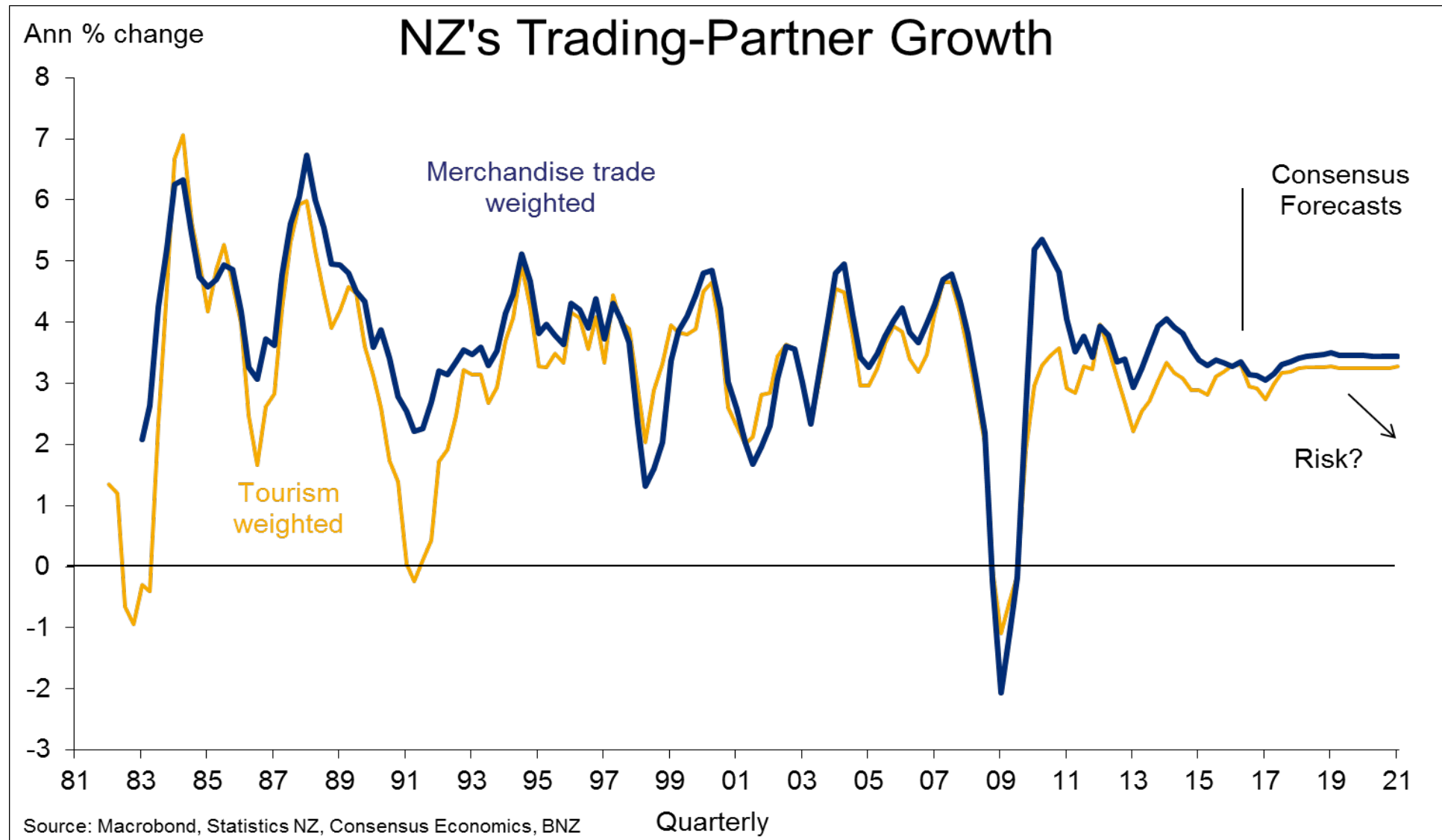
Drivers of the NZ Expansion

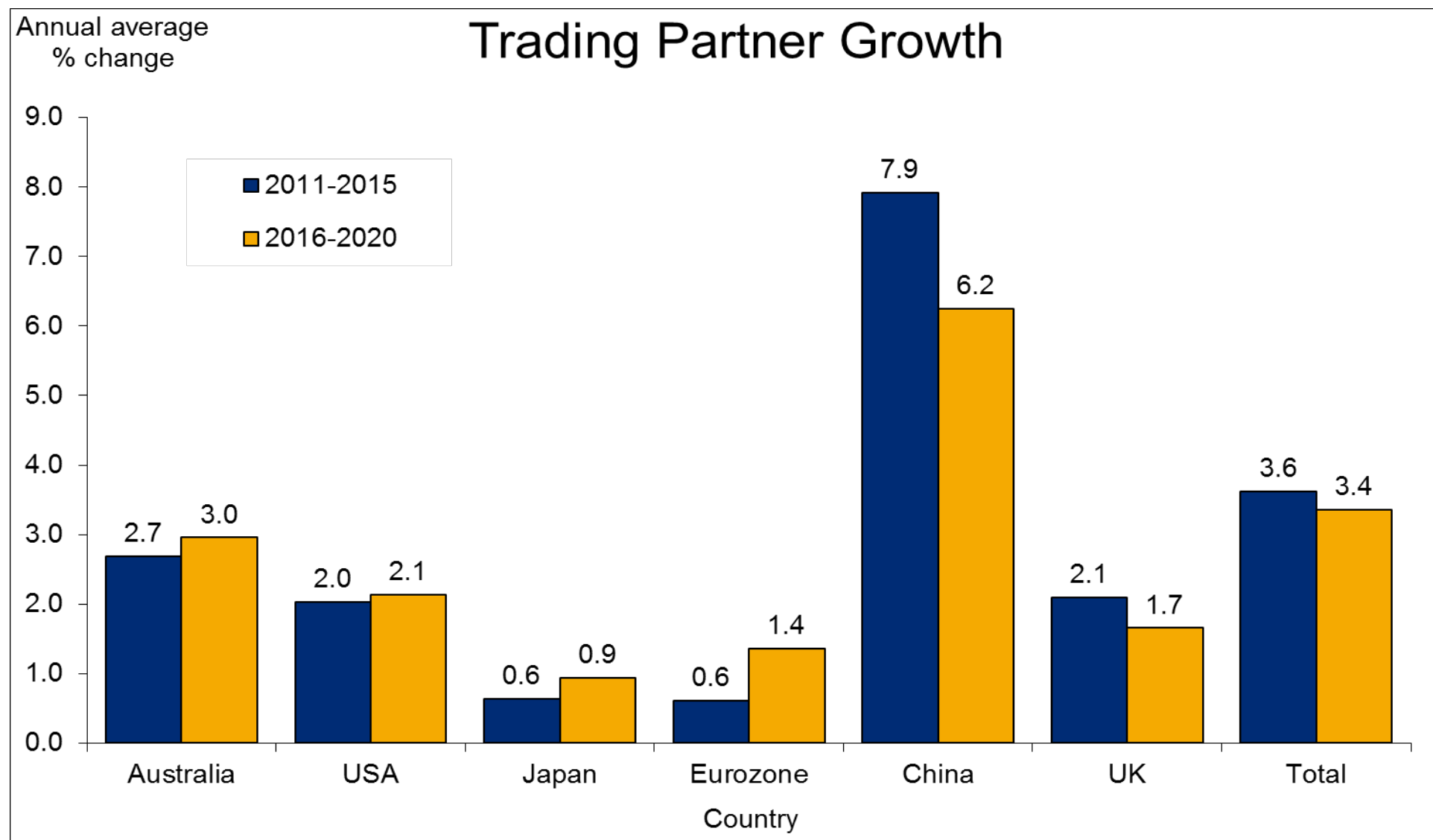
- *Net migration (may actually increase)*
- *Tourism (is Asia dominated but may suffer at the edges)*
- *Building (unaffected)*
- *Infrastructure (unaffected)*
- *Education services (unaffected)*

The Bad News

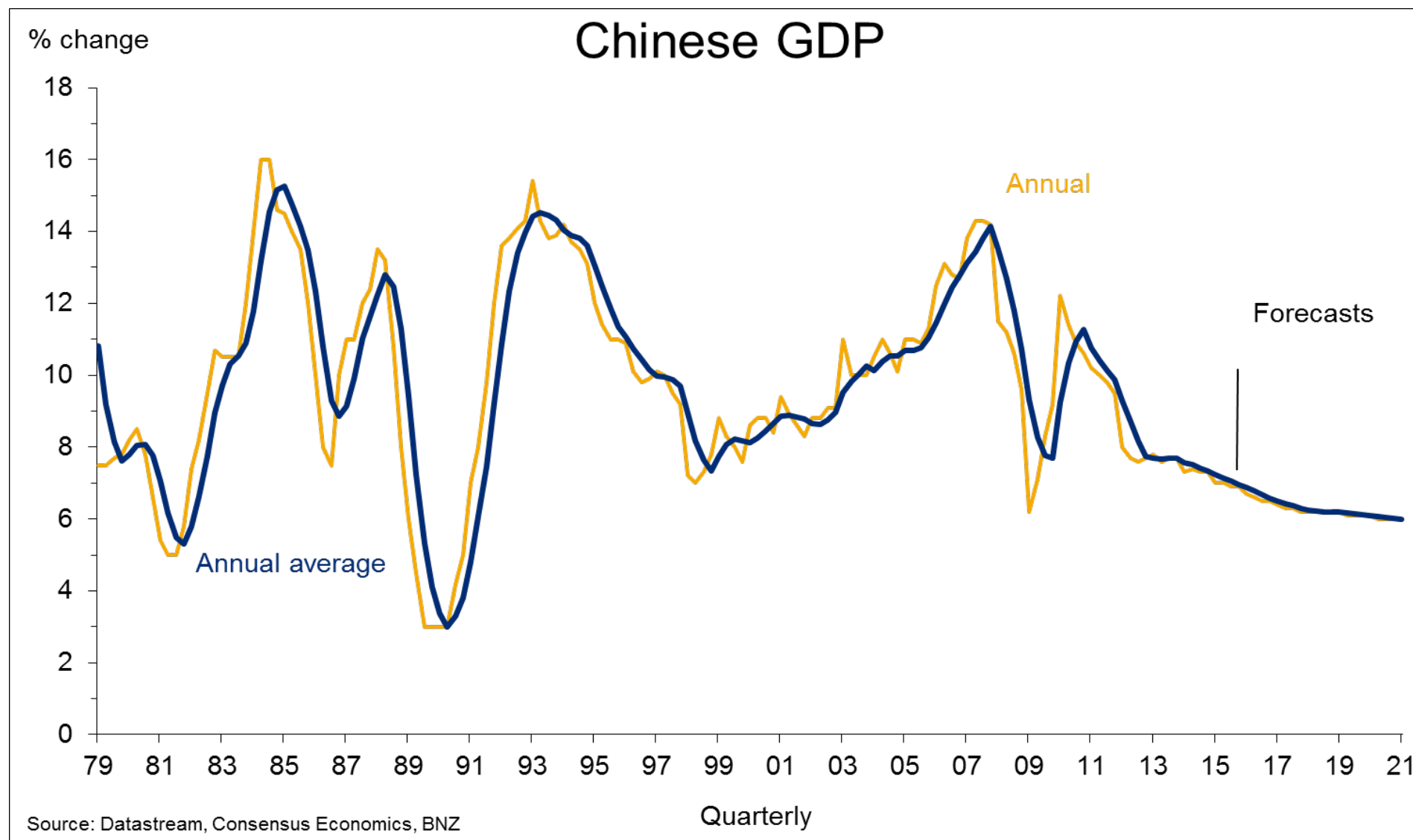
- *Meat (the quota system)*
- *Dairy (EZ competition)*
- *Wine (NZD/GBP)*
- *Retail (NZD/GBP)*

NZ Trading Partner Outlook

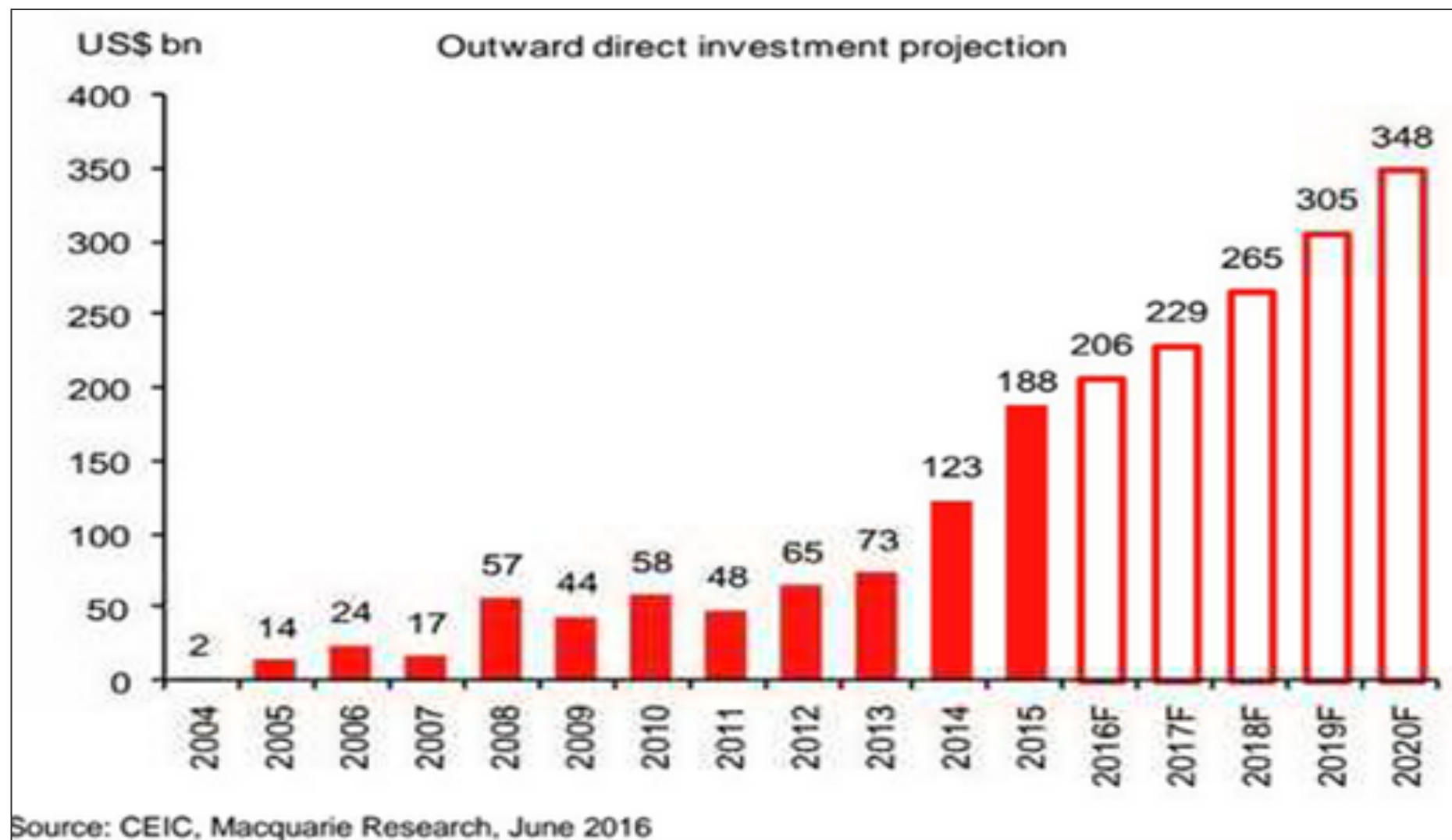




China To Keep Slowing

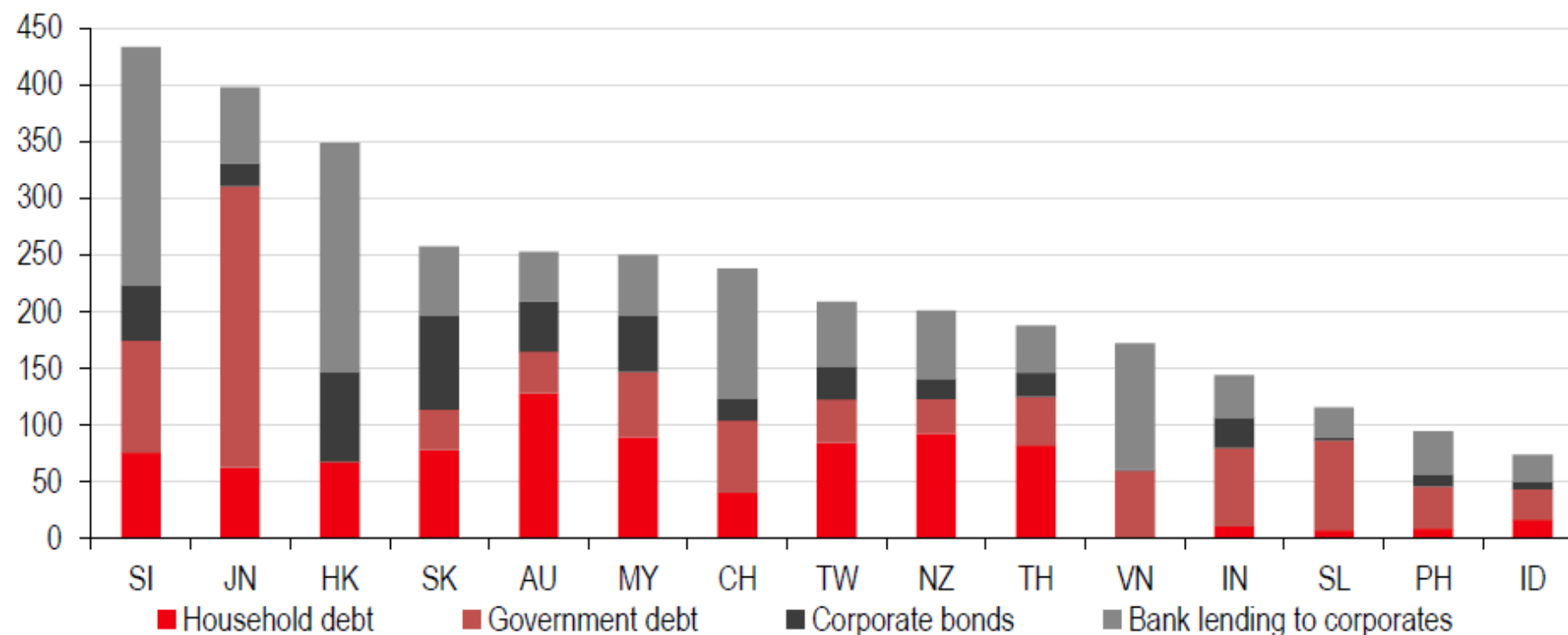


What Will They Buy?



Regional Debt Build Up

Chart 1: Debt (% of GDP, 2015)

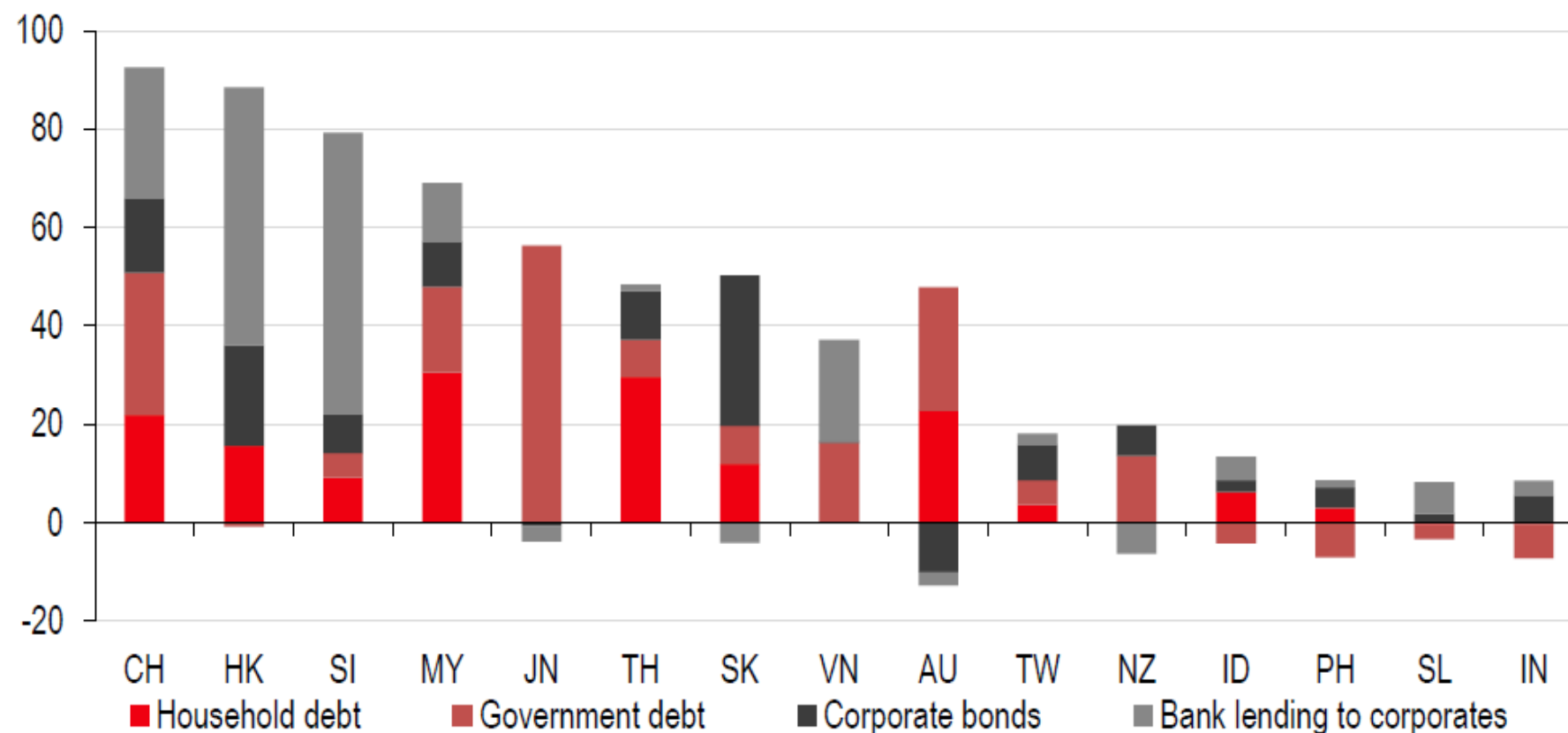


Source: Banks' financial statements, ADB, CEIC, IMF, BoT, PBoC, RBI, CBRC, Wind, HSBC. NB: VN household debt included in bank lending to corporates.

Source: HSBC

China's Rising Debt Levels

Chart 3: Change in debt-to-GDP ratios (ppt, since 2008)

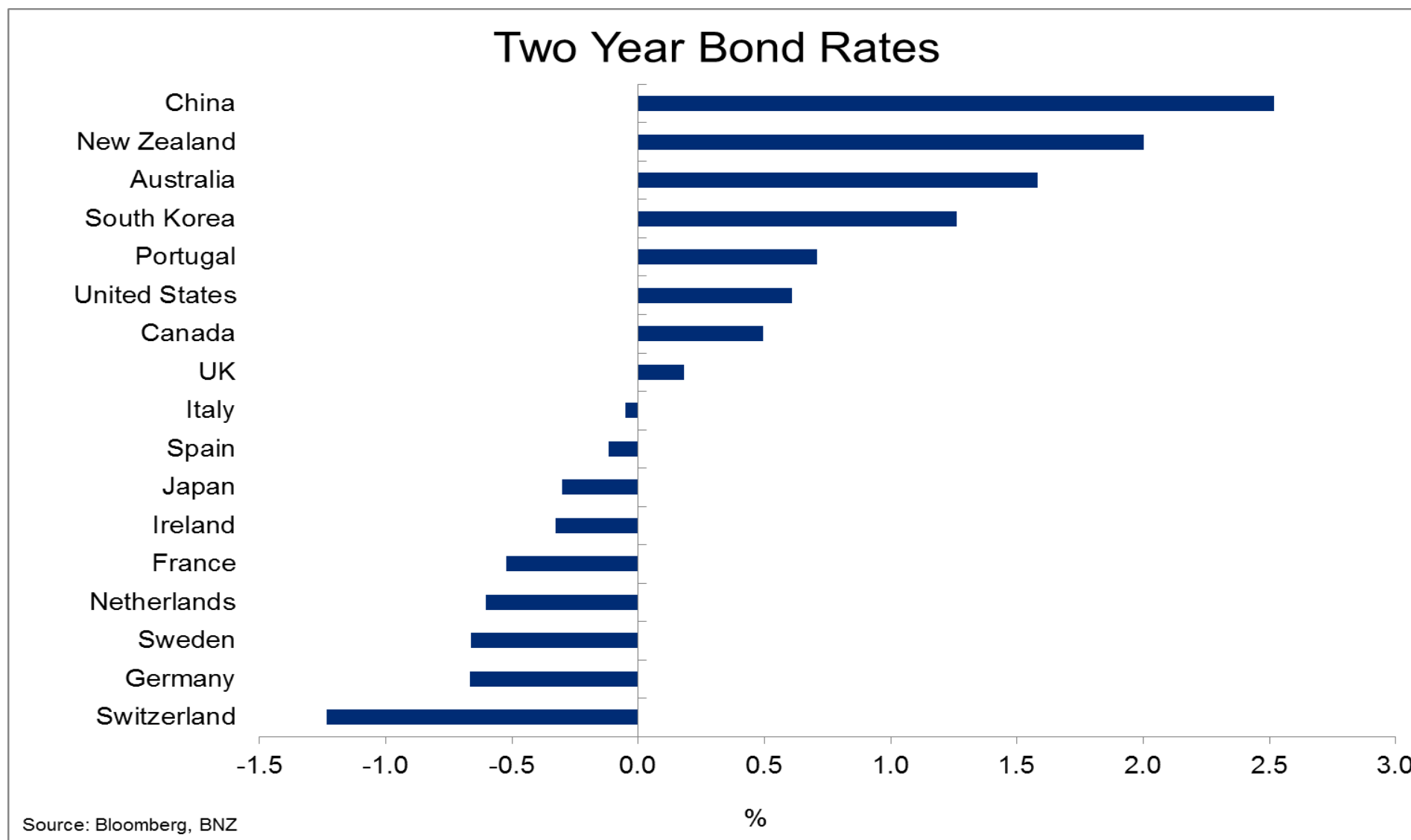


Source: Banks' financial statements, ADB, CEIC, IMF, BoT, PBoC, RBI, CBRC, Wind, HSBC. NB: VN household debt included in bank lending to corporates.
Source: HSBC

The Fed

- *All asset prices are elevated*
- *Because interest rates are low*
- *Fed tightening may be the catalyst for change*
- *And a lower NZD*

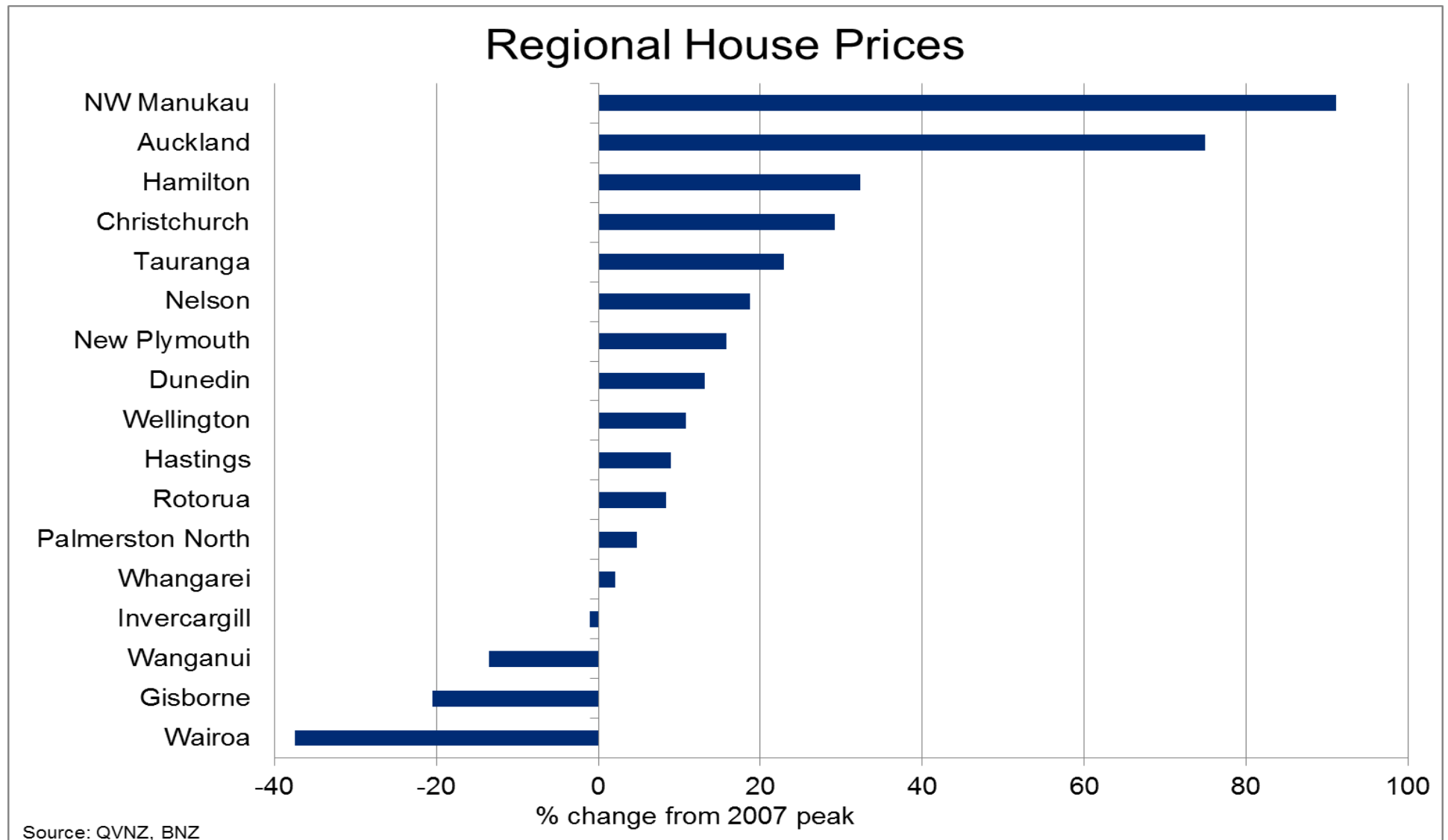
Negative Interest Rates



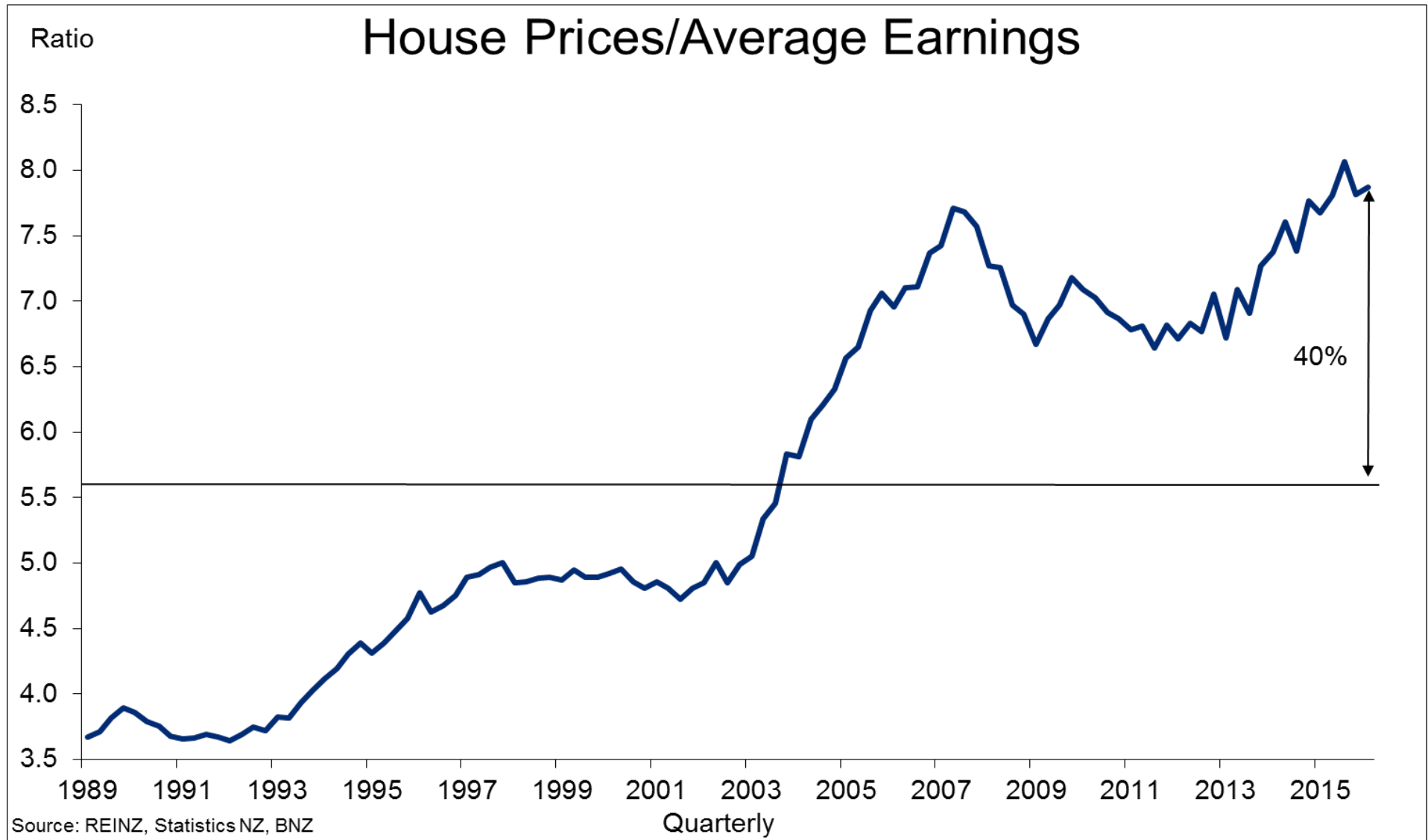
NZ Issues

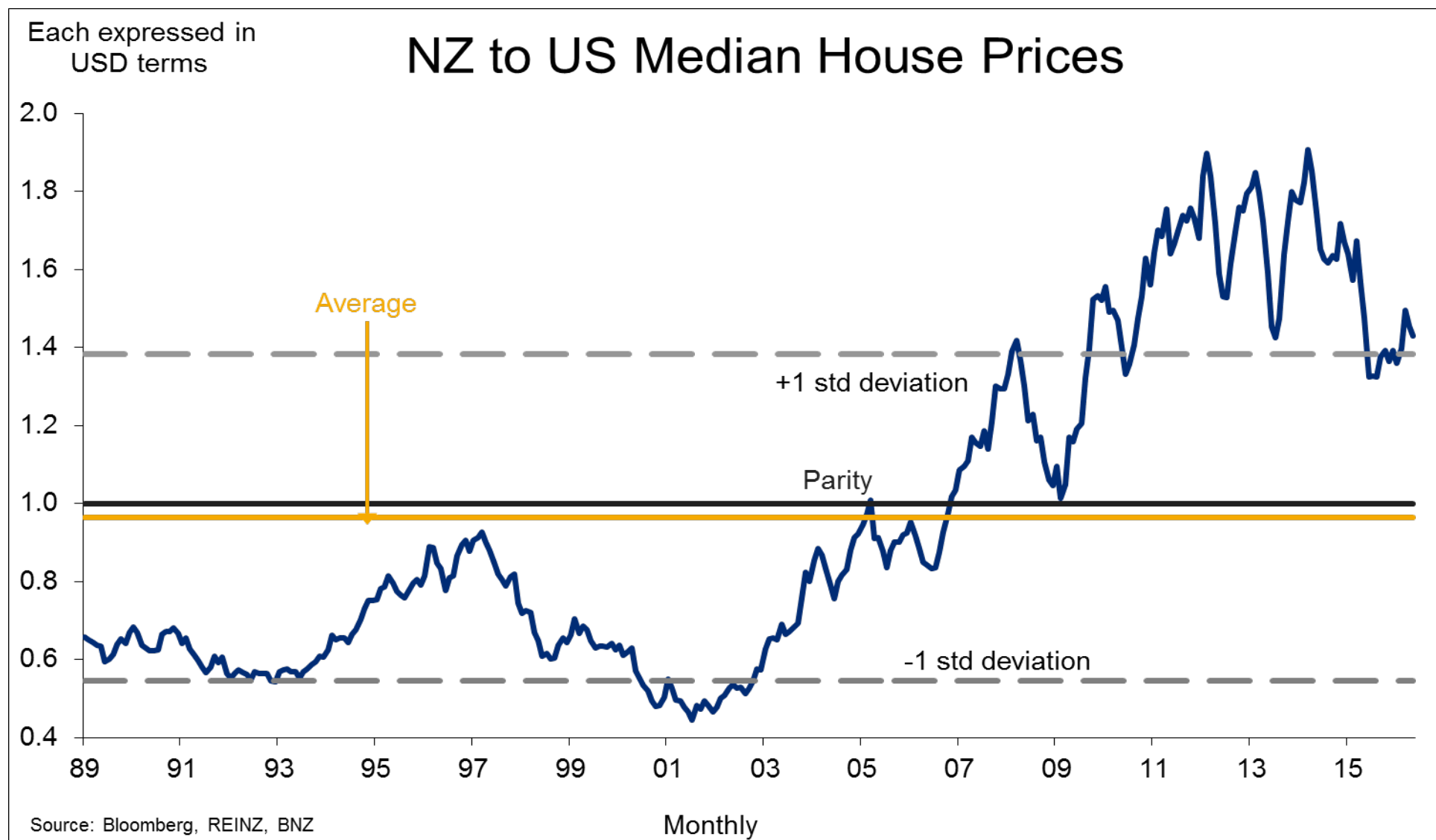
- *Housing*
- *Migration*
- *We're not just China's dairy farm*
- *Capacity constraints*
- *Debt*
- *The role of the central bank*
- *Melding of monetary and fiscal policies*
- *Strengthening NZD*

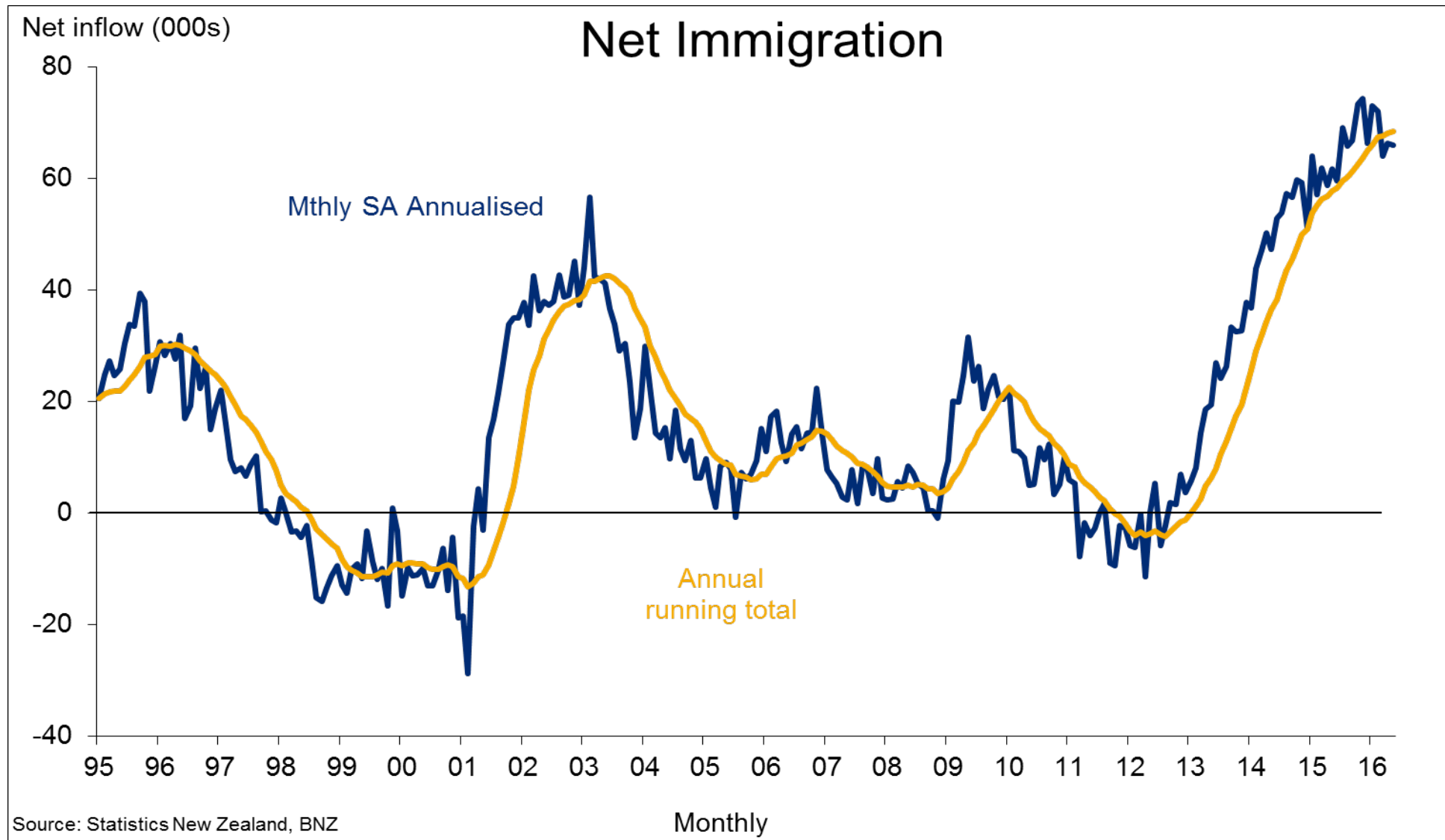
House Prices are Silly



And Getting Sillier

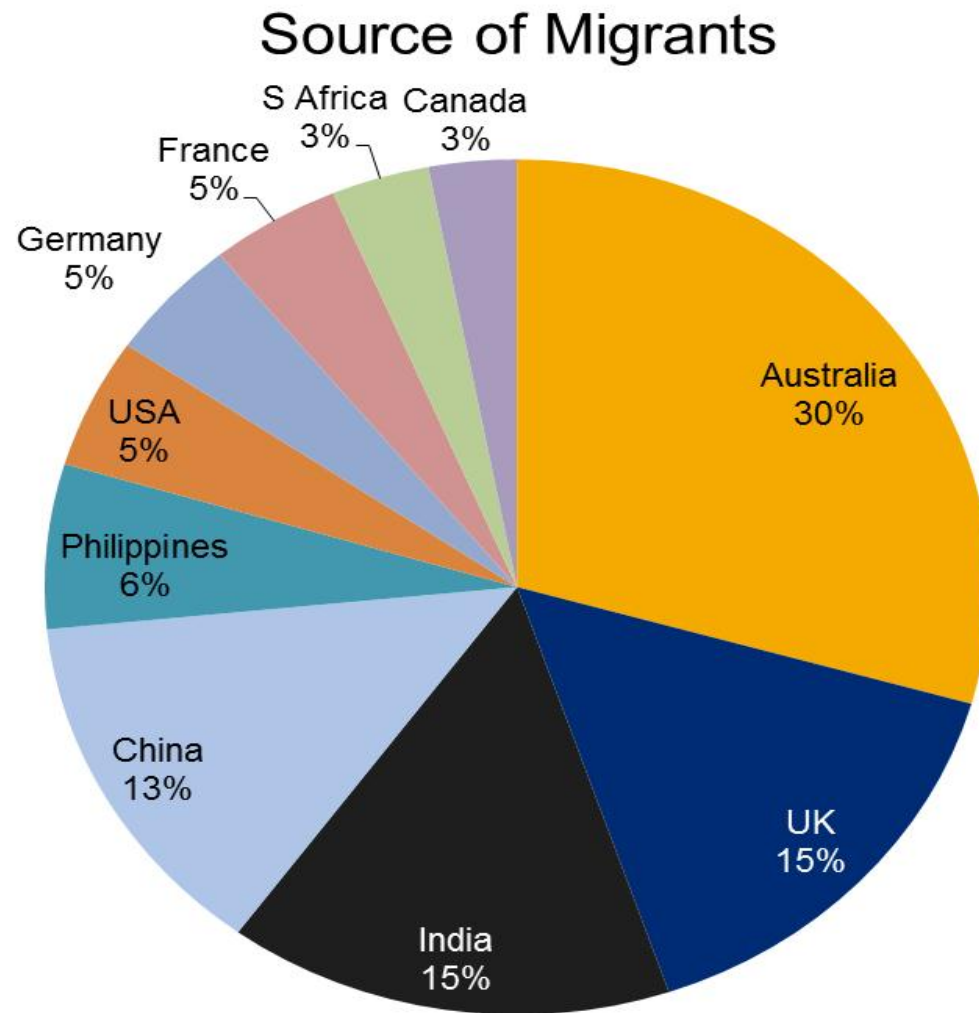






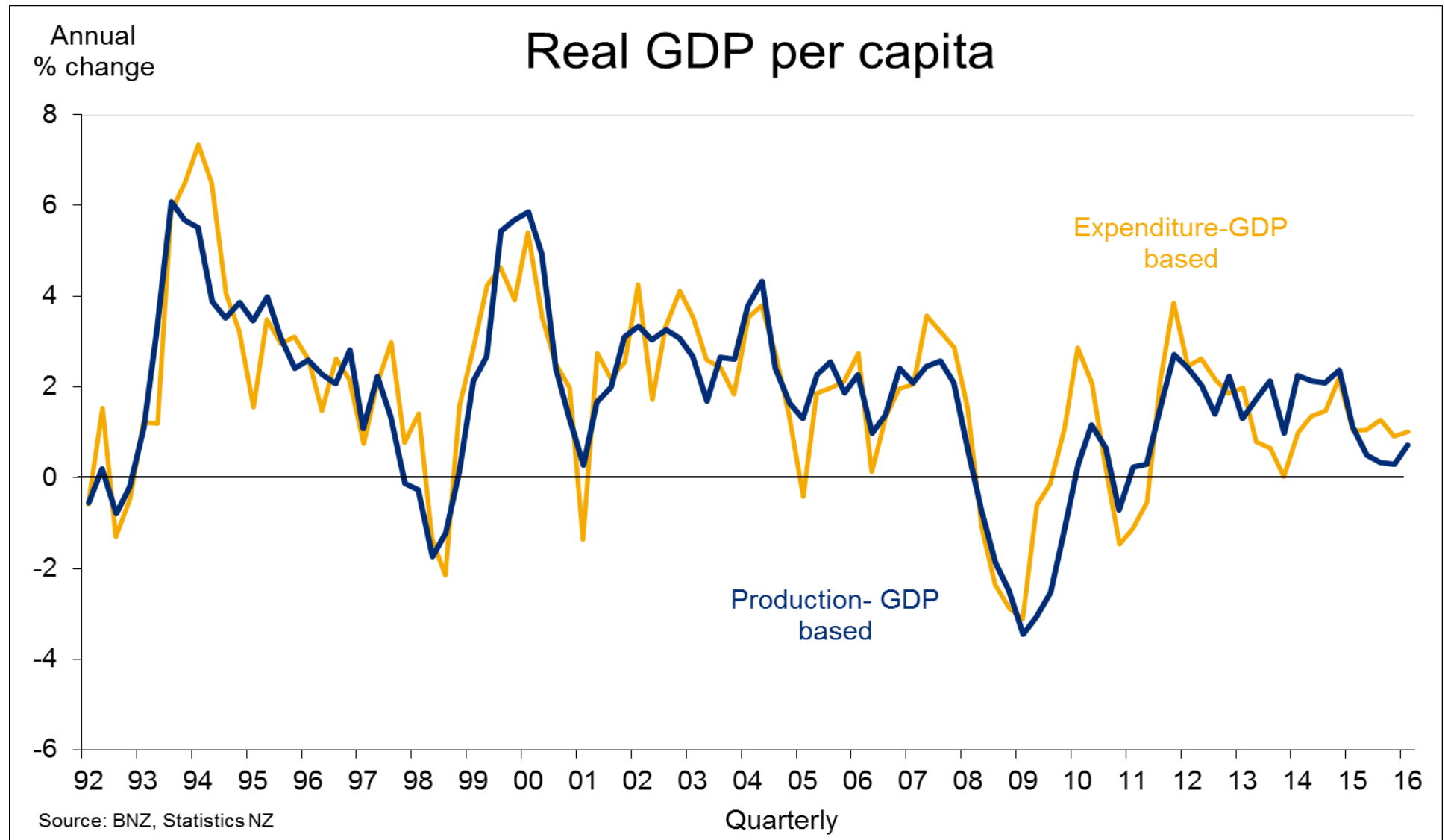
The Role Of Migration

“The current reigning orthodoxy, which stresses multiculturalism over assimilation, has only added to public angst. The internal contradictions in this belief system – you’re supposed to celebrate ethnic diversity, but if you actually point to any meaningful differences among ethnic groups, you are sure to be branded a racist – never seemed to bother the political establishment”.

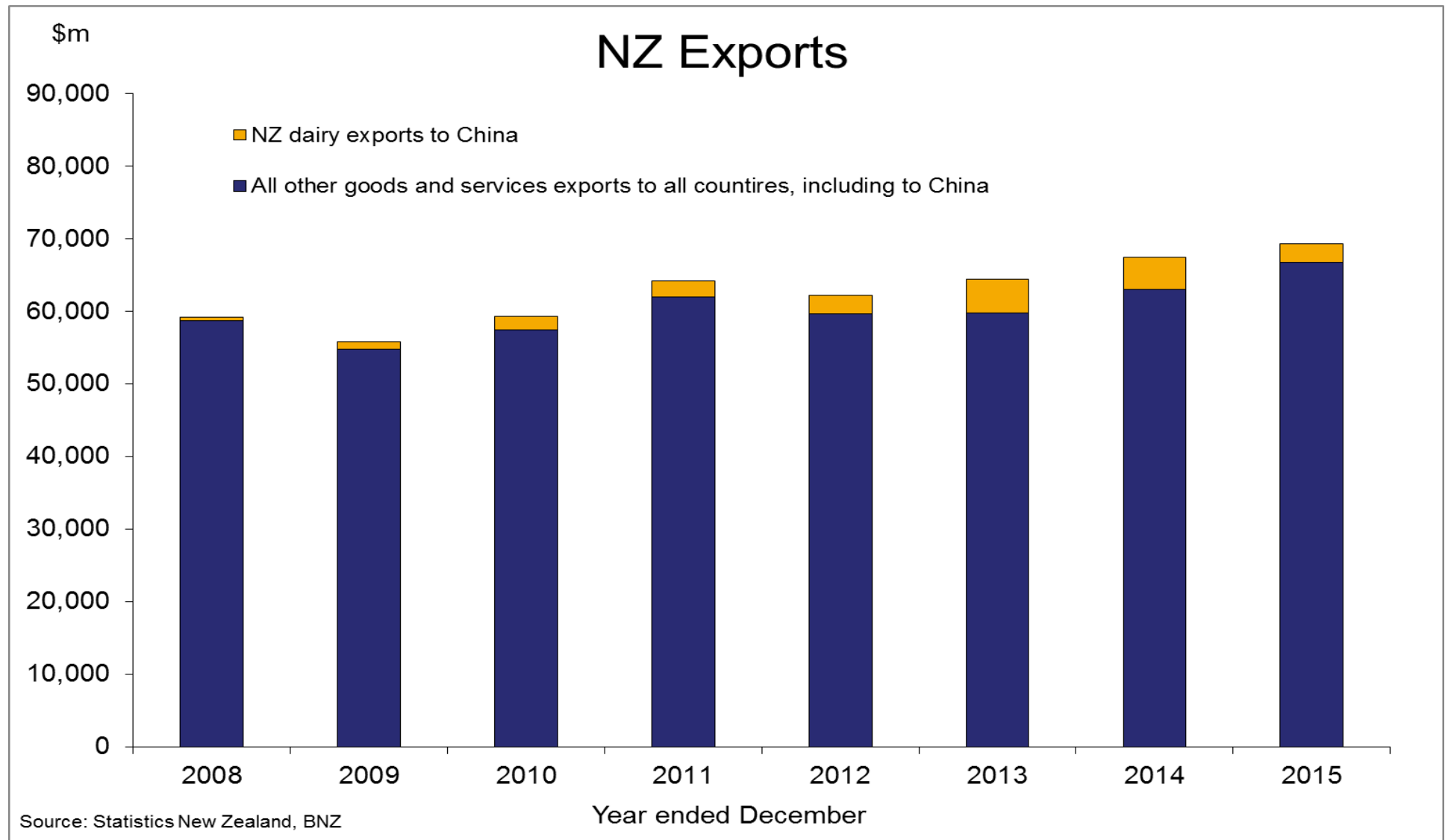


Source: Statistics New Zealand, BNZ

Whither Per Capita GDP?

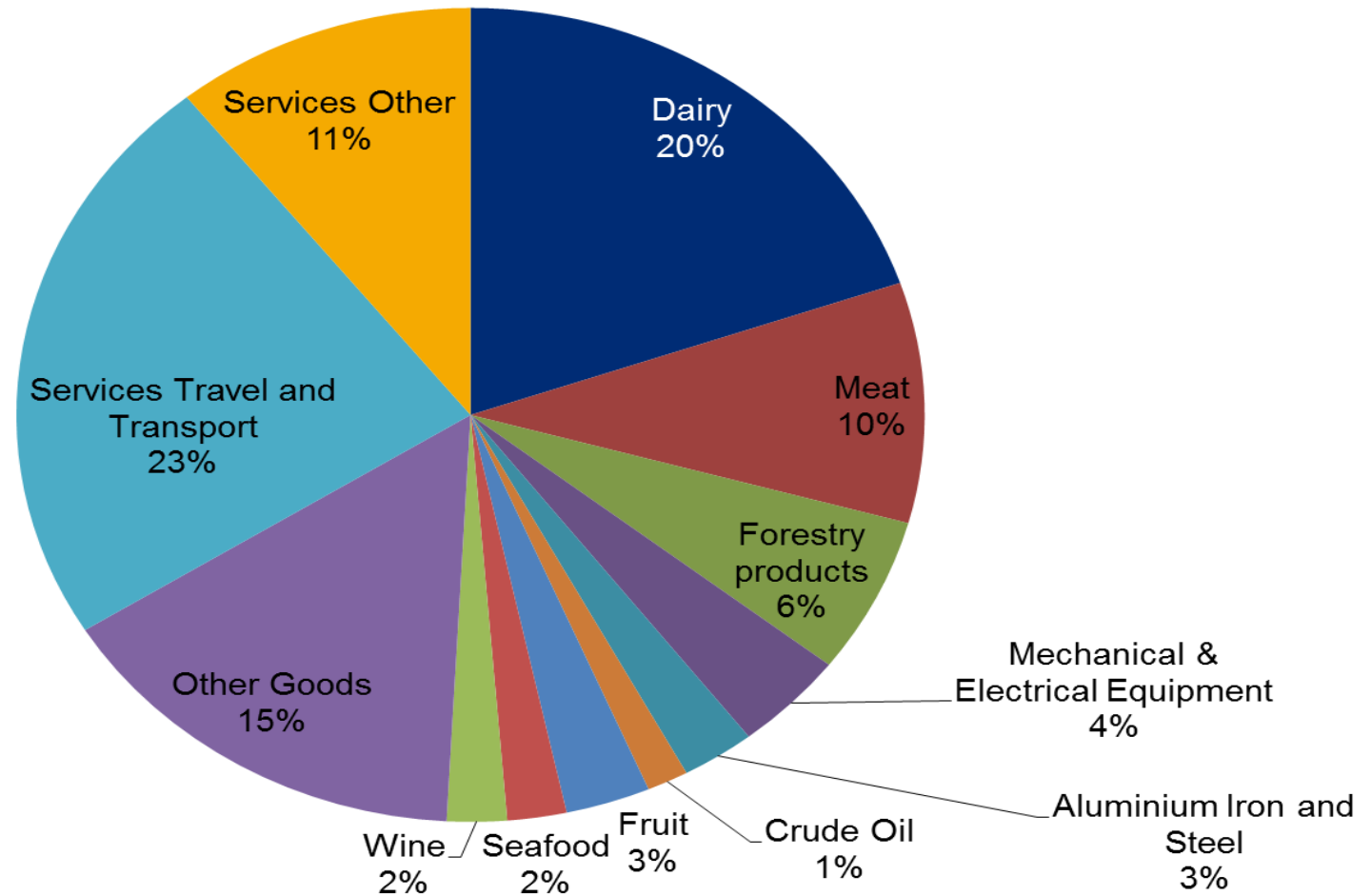


Not Just China's Dairy Farm

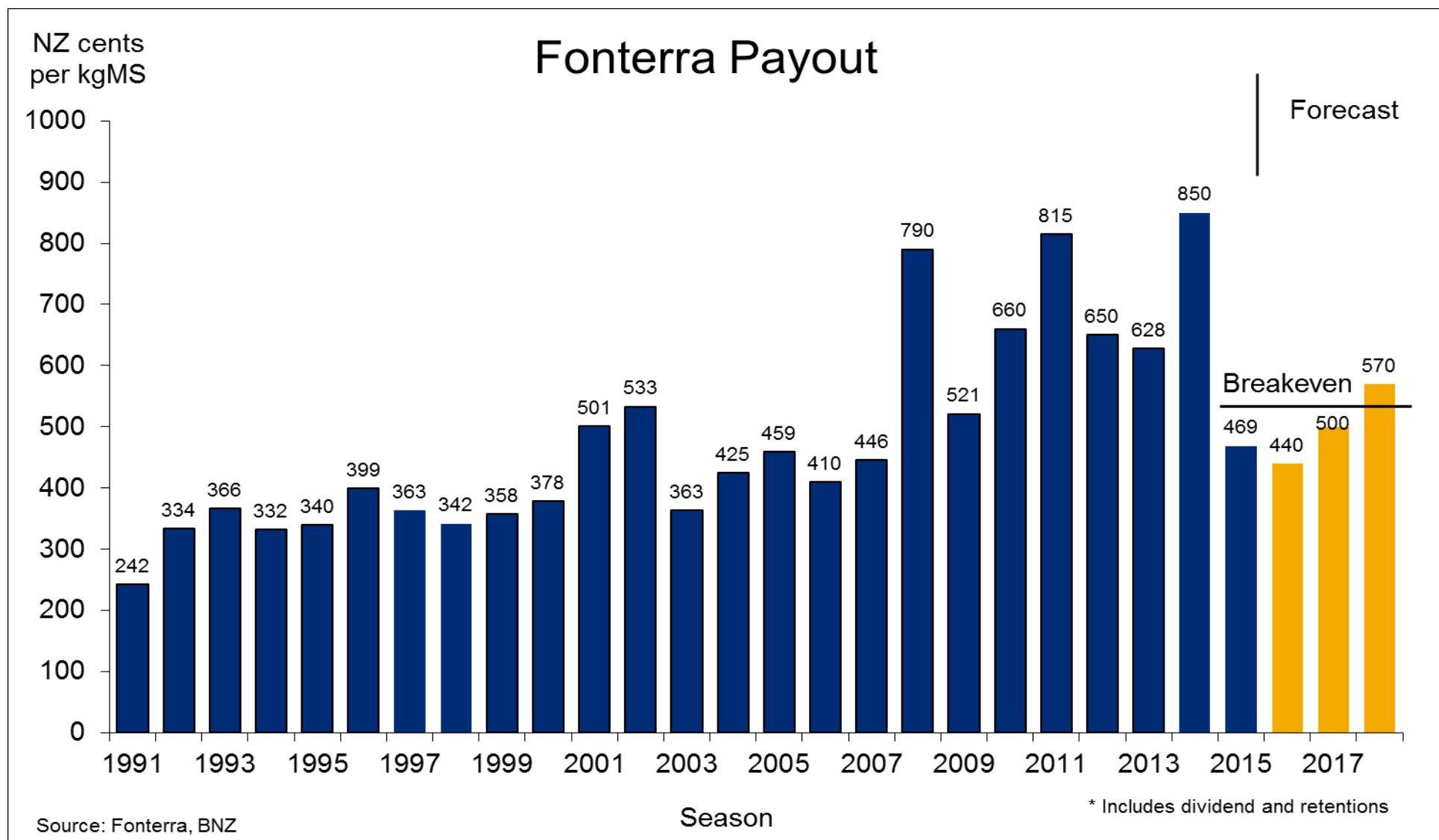


Indeed Not Just A Dairy Farm At All

Exports By Category



Source: Statistics New Zealand, BNZ



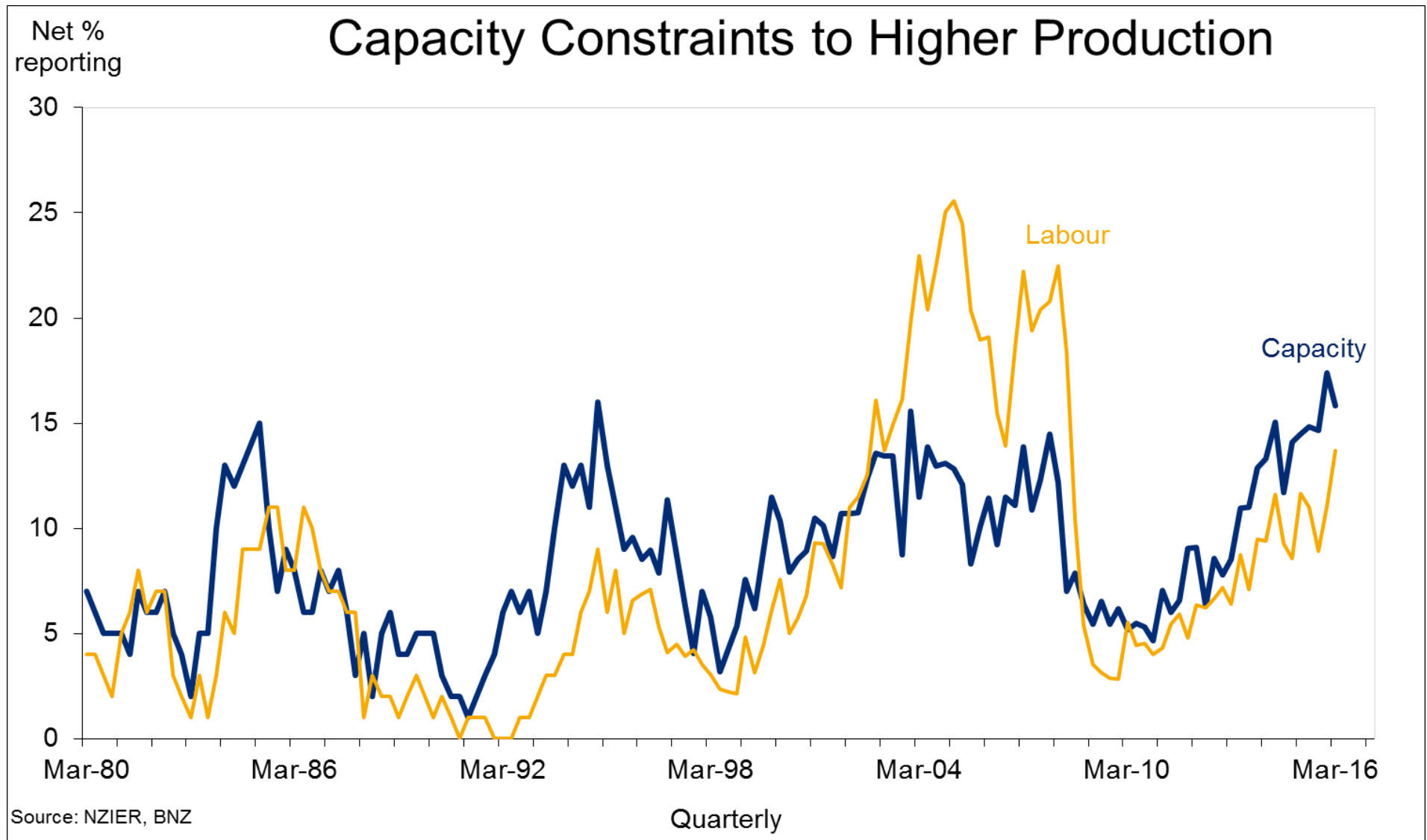
The Future Depends On

- *EU milk supply*
- *US supply and demand*
- *Chinese supply and demand*
- *Latin American growth*
- *The Russian Trade Ban*
- *The NZD*
- *Oil and Grain Prices*

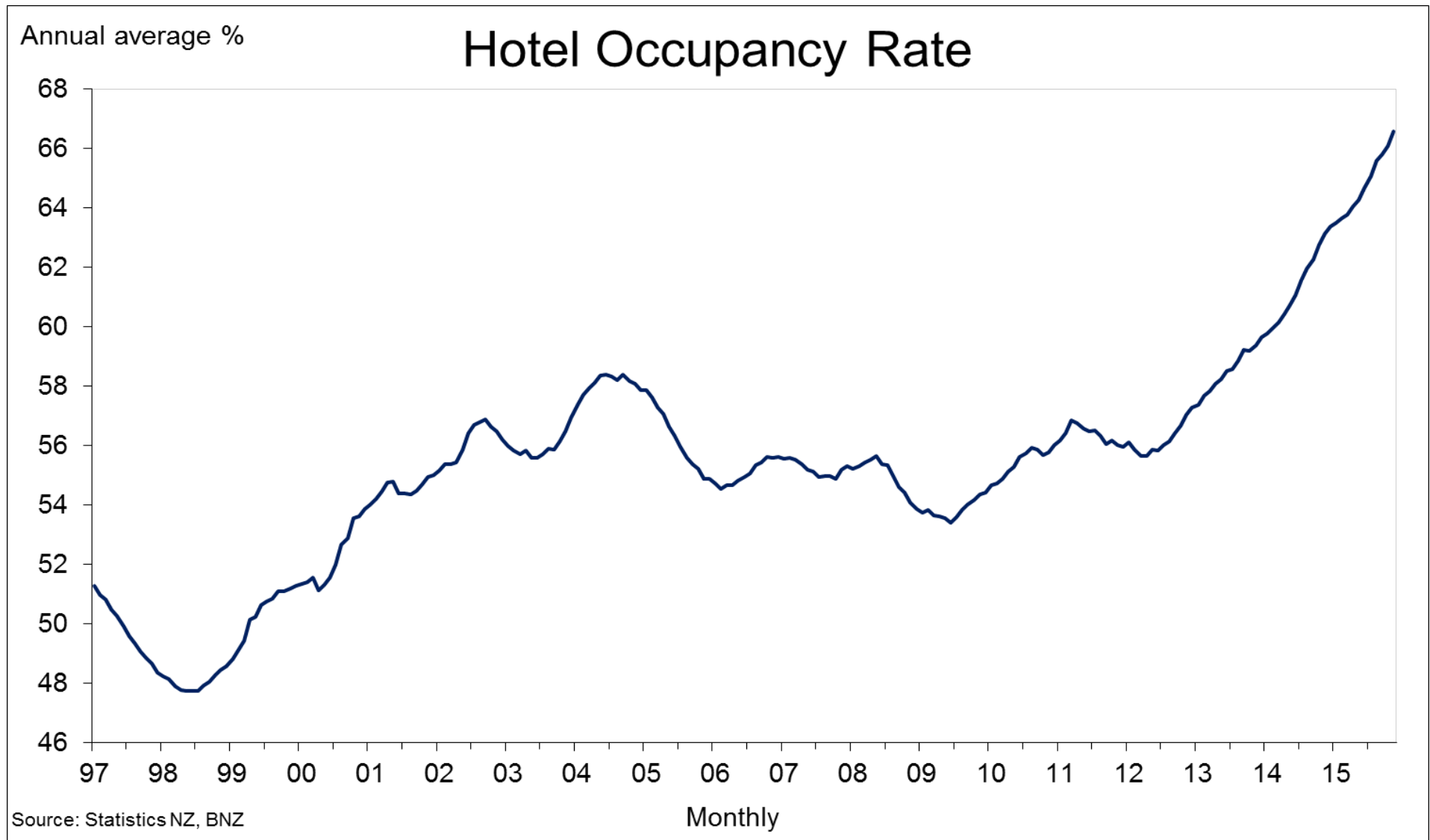
Capacity Issues

- *Labour*
- *Physical capacity*
- *Infrastructure*
- *Tourism*

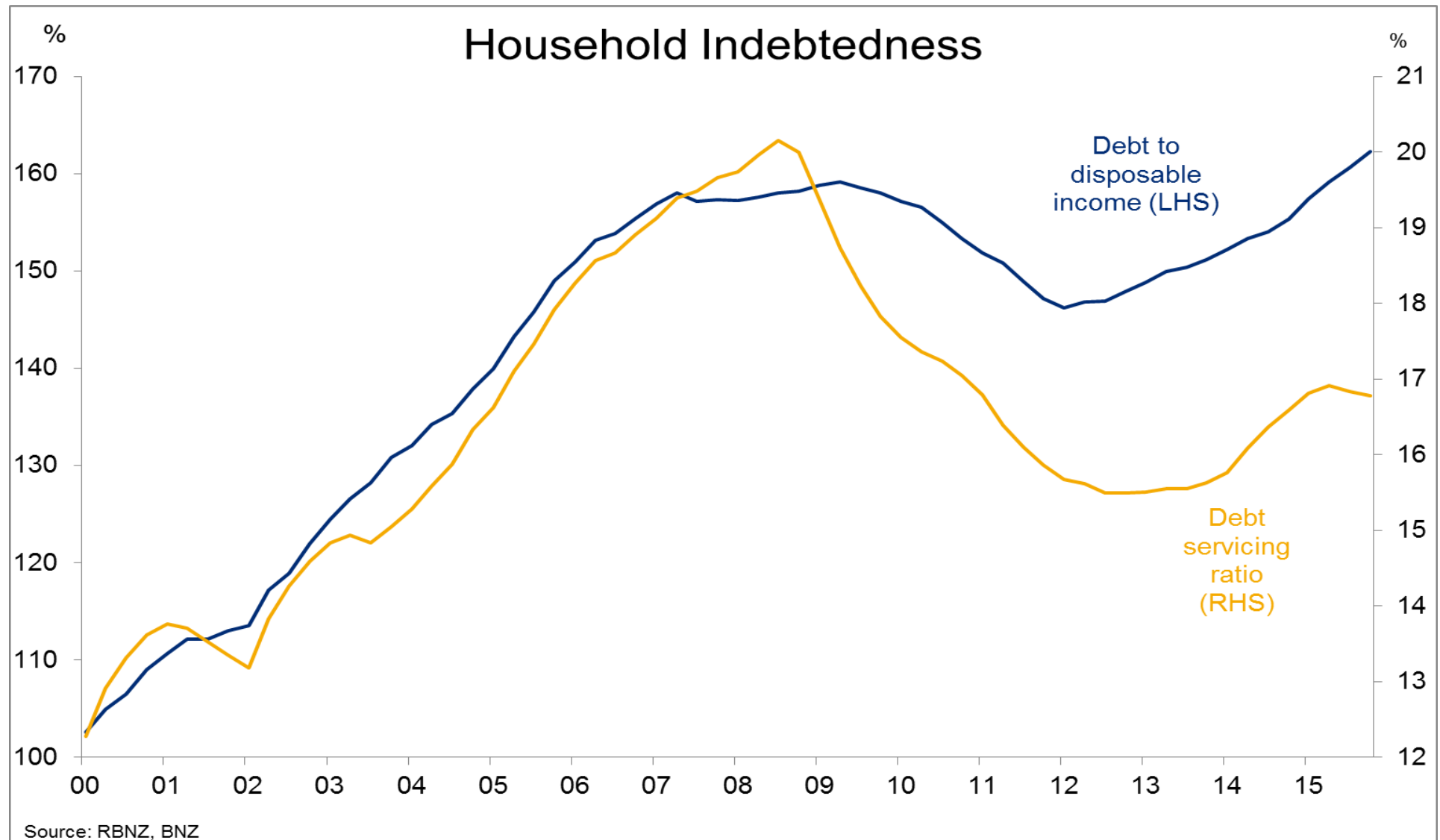
Capacity Pressures Build



Where Will The Tourists Fit?

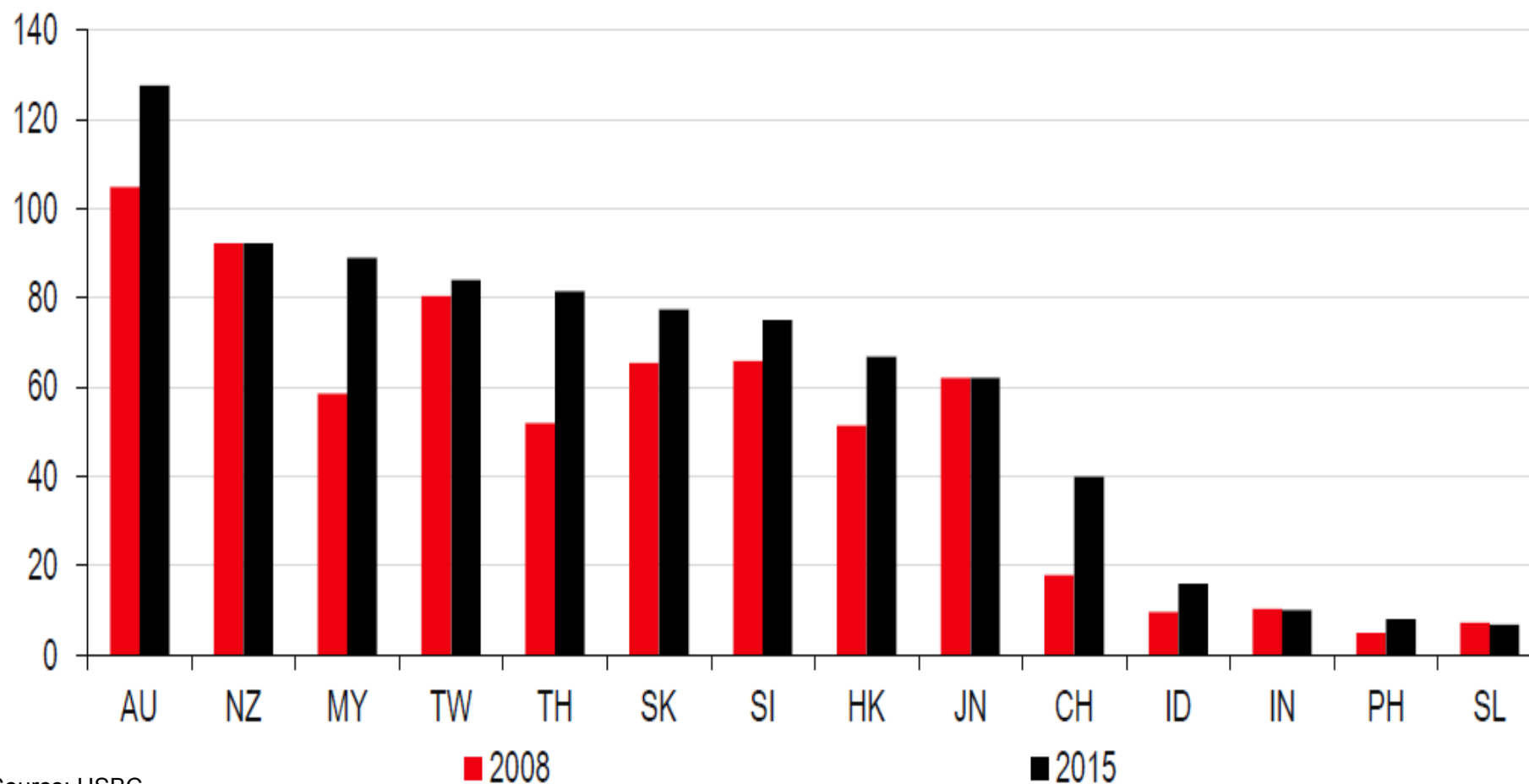


Worrying Debt Levels

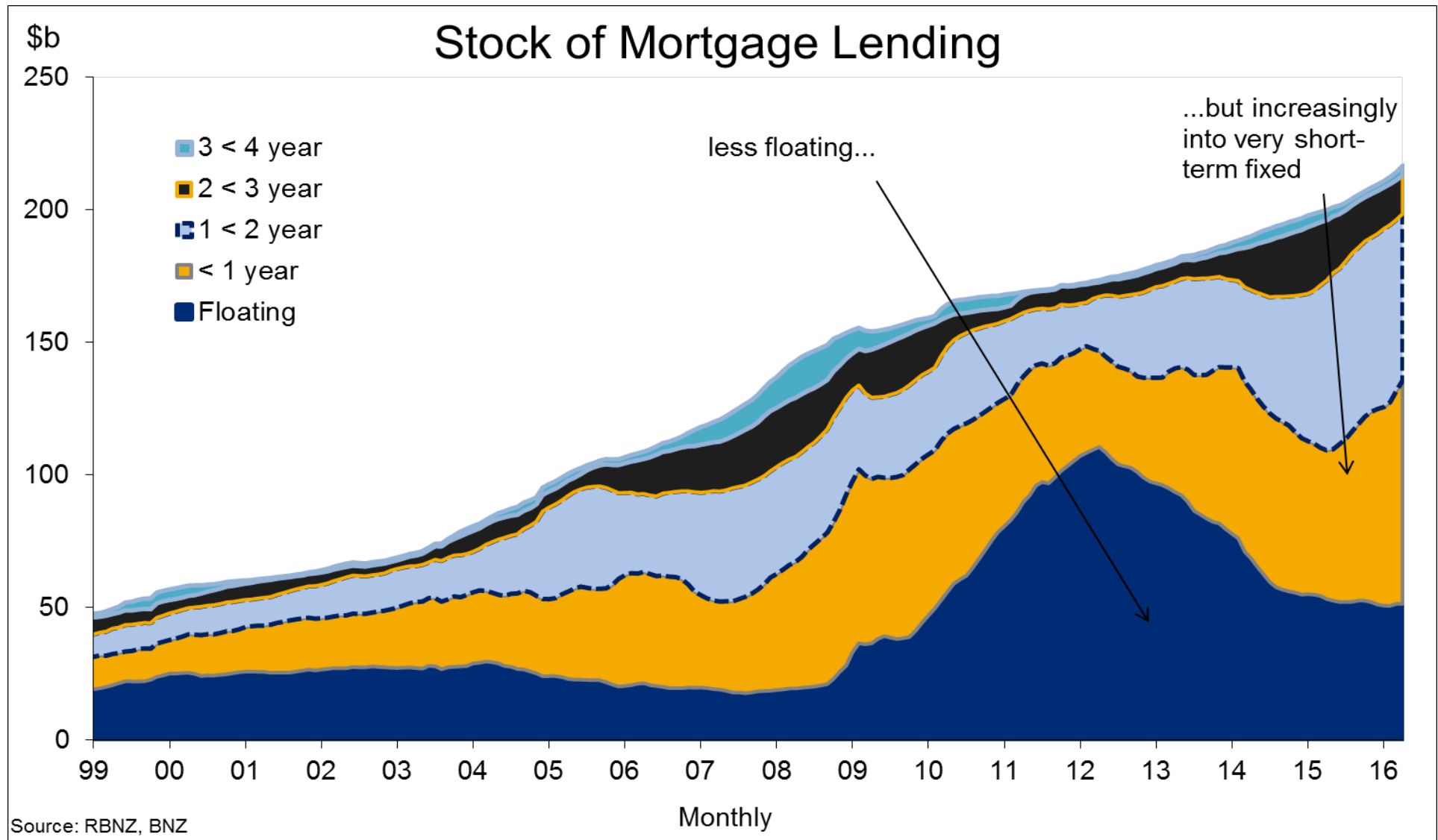


Worrying Debt Levels

Chart 4: Household debt (% of GDP)



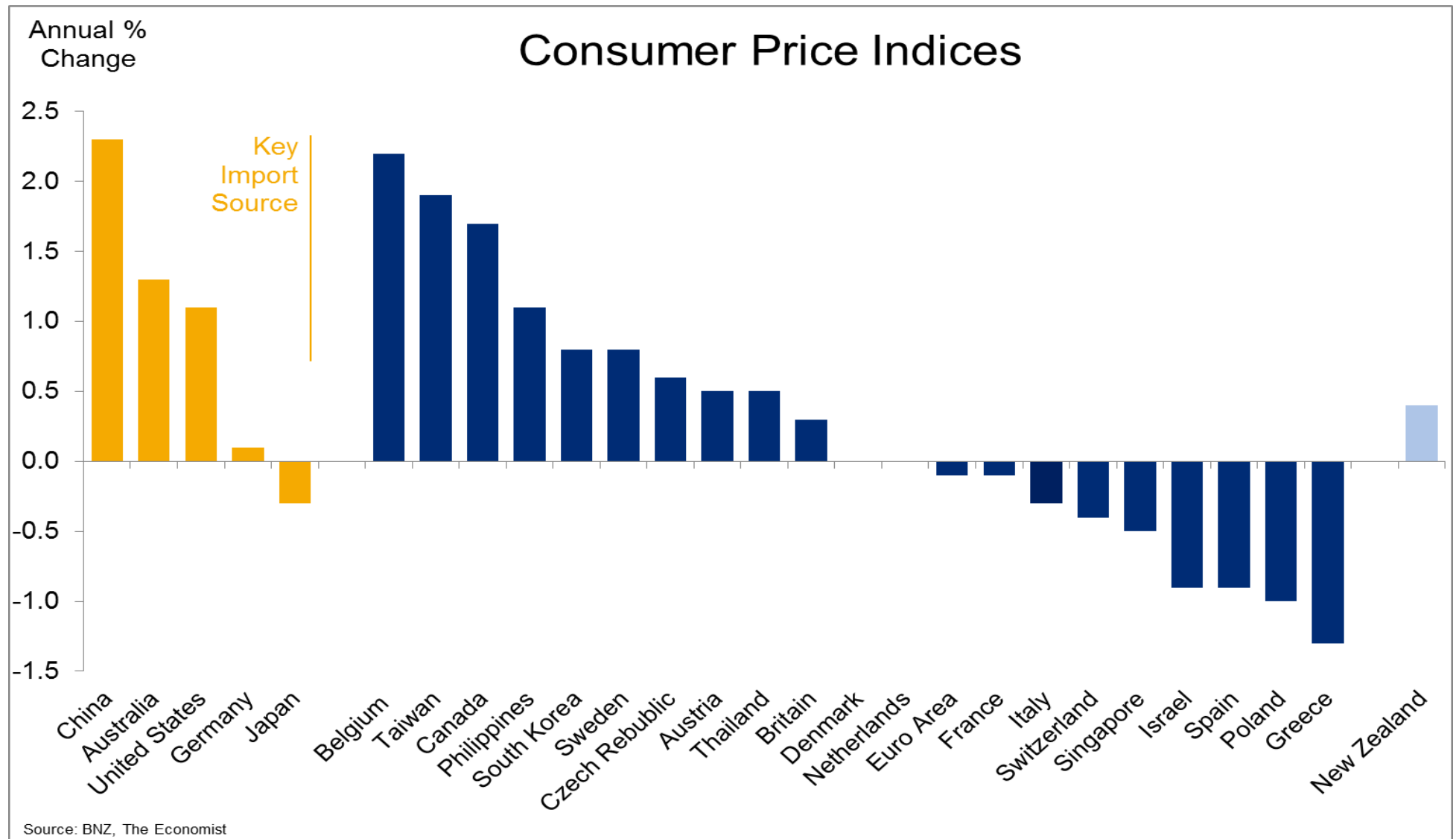
Rate Hikes Problematic

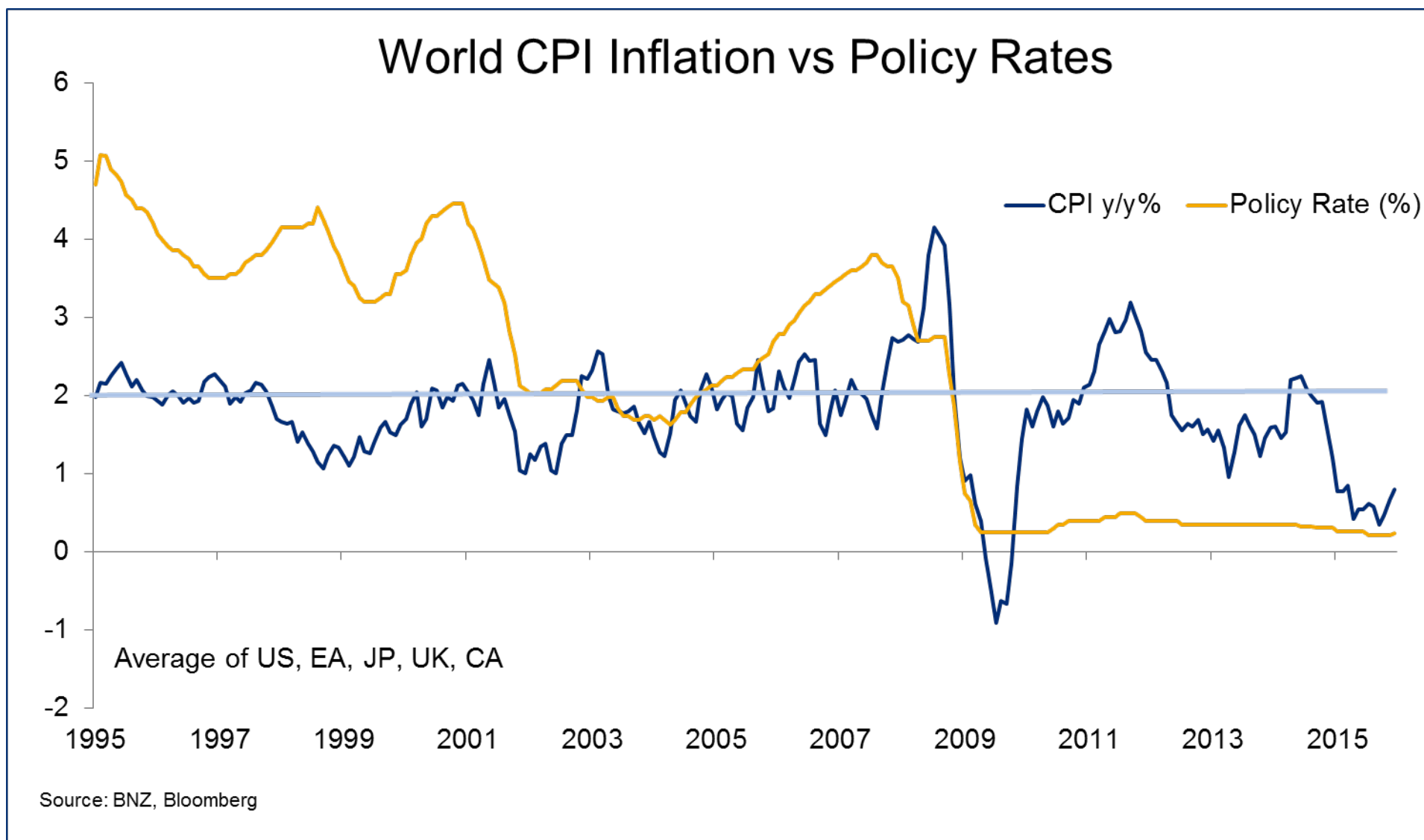


Structural Deflation

- ***Opening up China created a huge shock to the global system***
- ***Opening up global trade exposed high wage countries to low wage production costs***
- ***Stock overhang globally***
- ***Supply shocks***
- ***Technology shocks***
- ***Reduced supply chains***

Low Inflation Everywhere





Easing Unhelpful

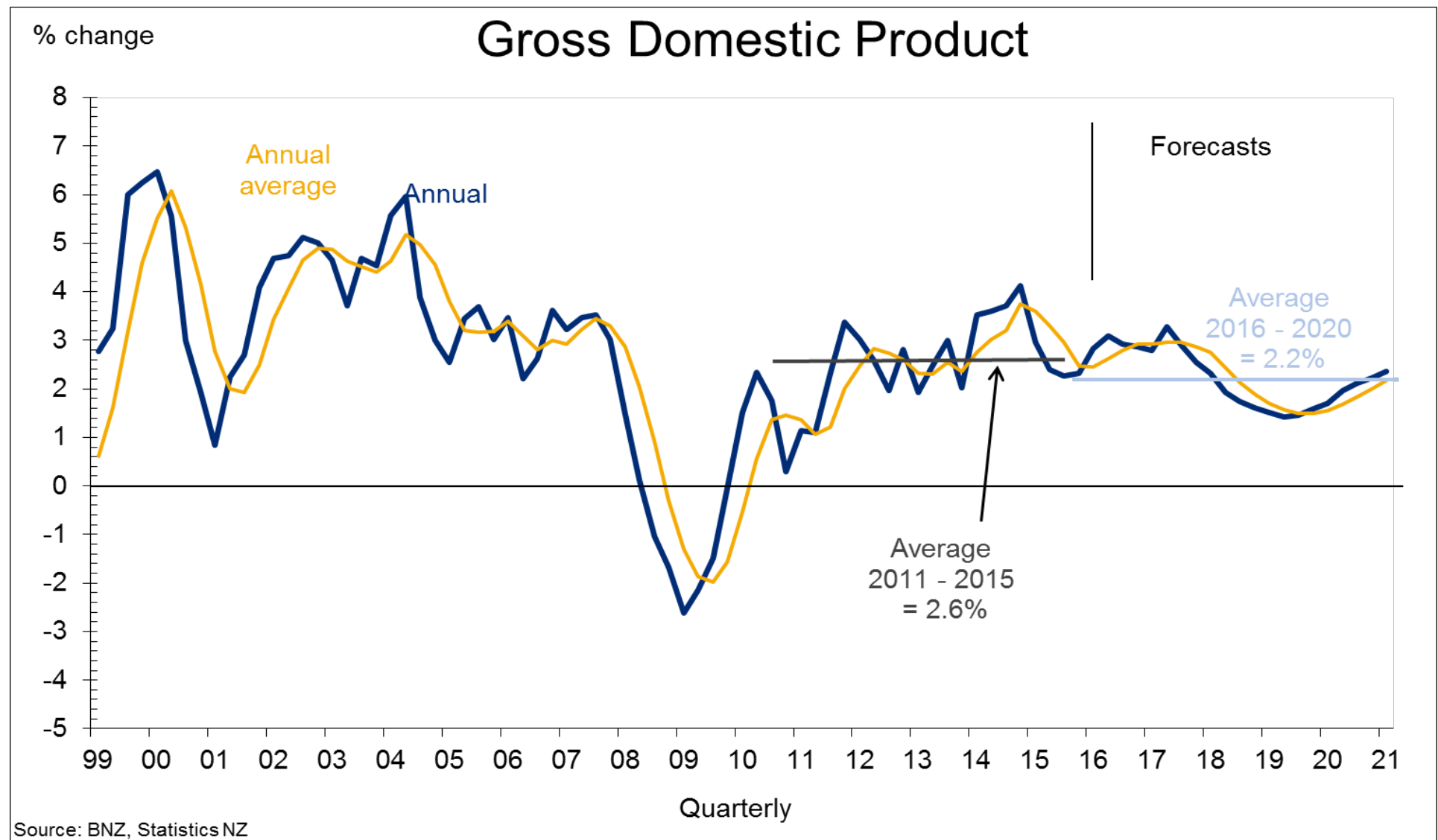
- ***Property prices push higher***
- ***Banks benefit most***
- ***NZD fails to fall***

NZD Supported

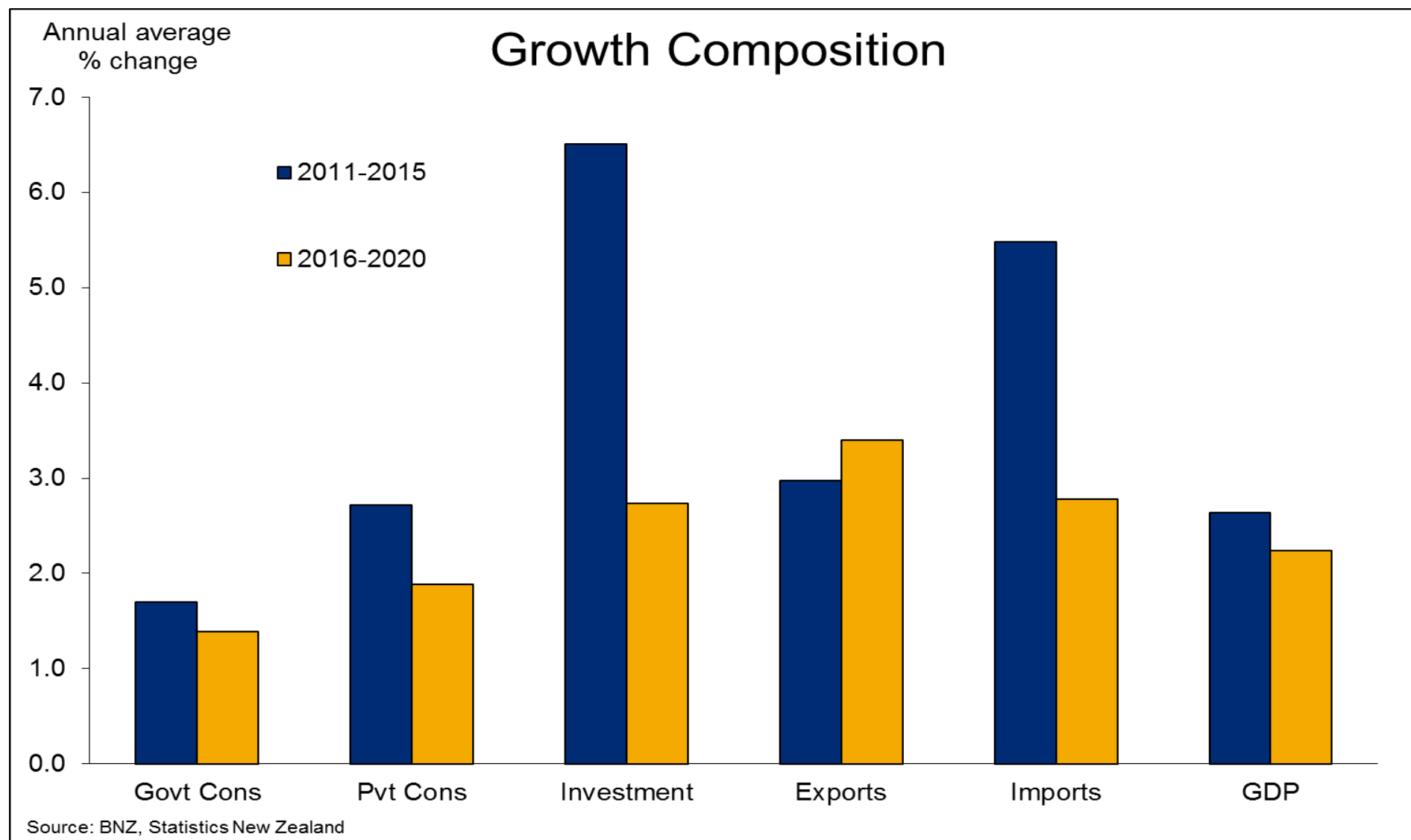
- ***NZ growth solid***
- ***There is an interest rate differential***
- ***Lower rates mean heightened investment elsewhere***

The Outlook

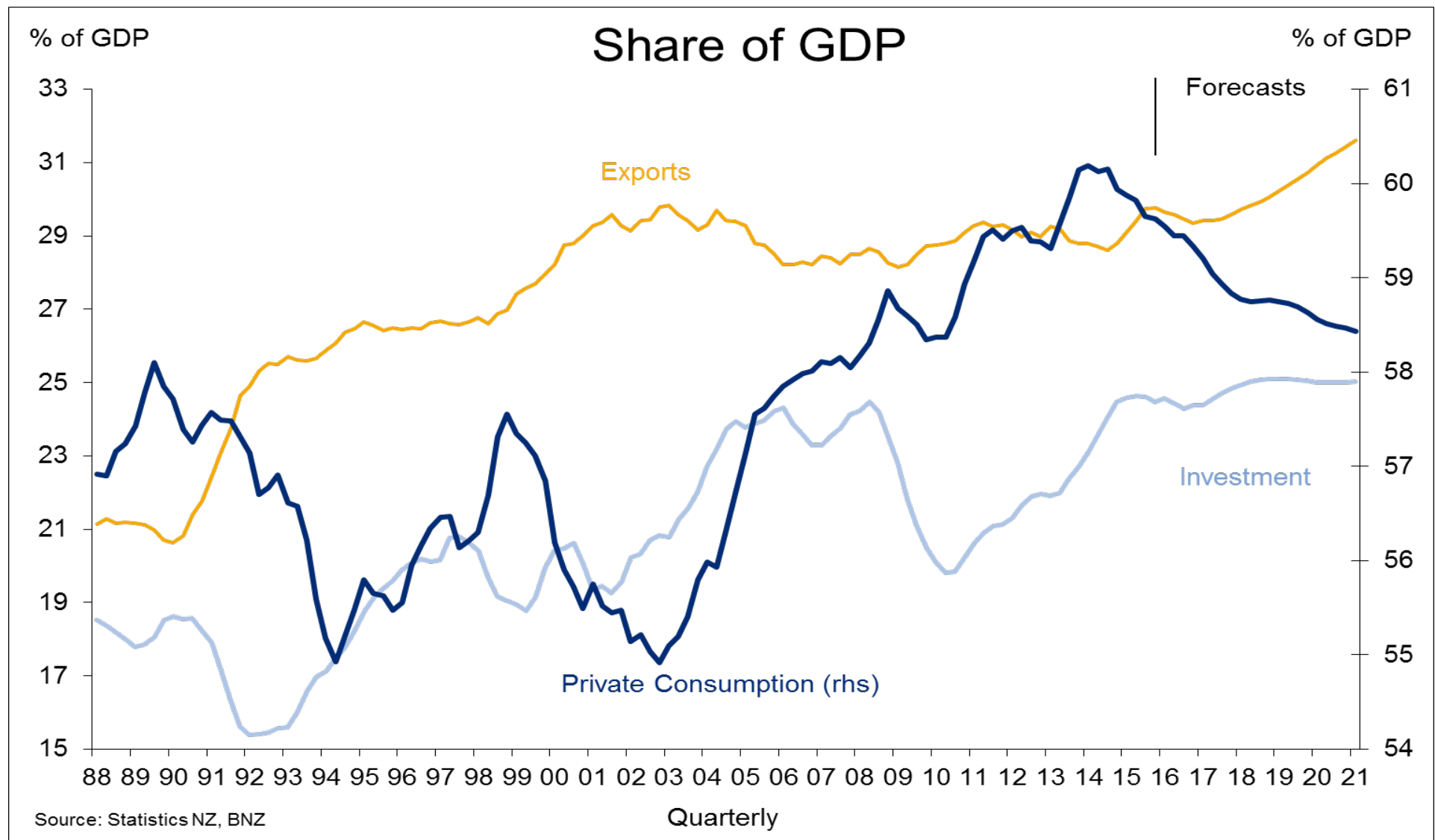
- *Momentum carries the day*
- *But growth moderation likely*
- *As major cycles end*
- *Inflation to edge higher*
- *Rate rises – eventually*
- *NZD supported*

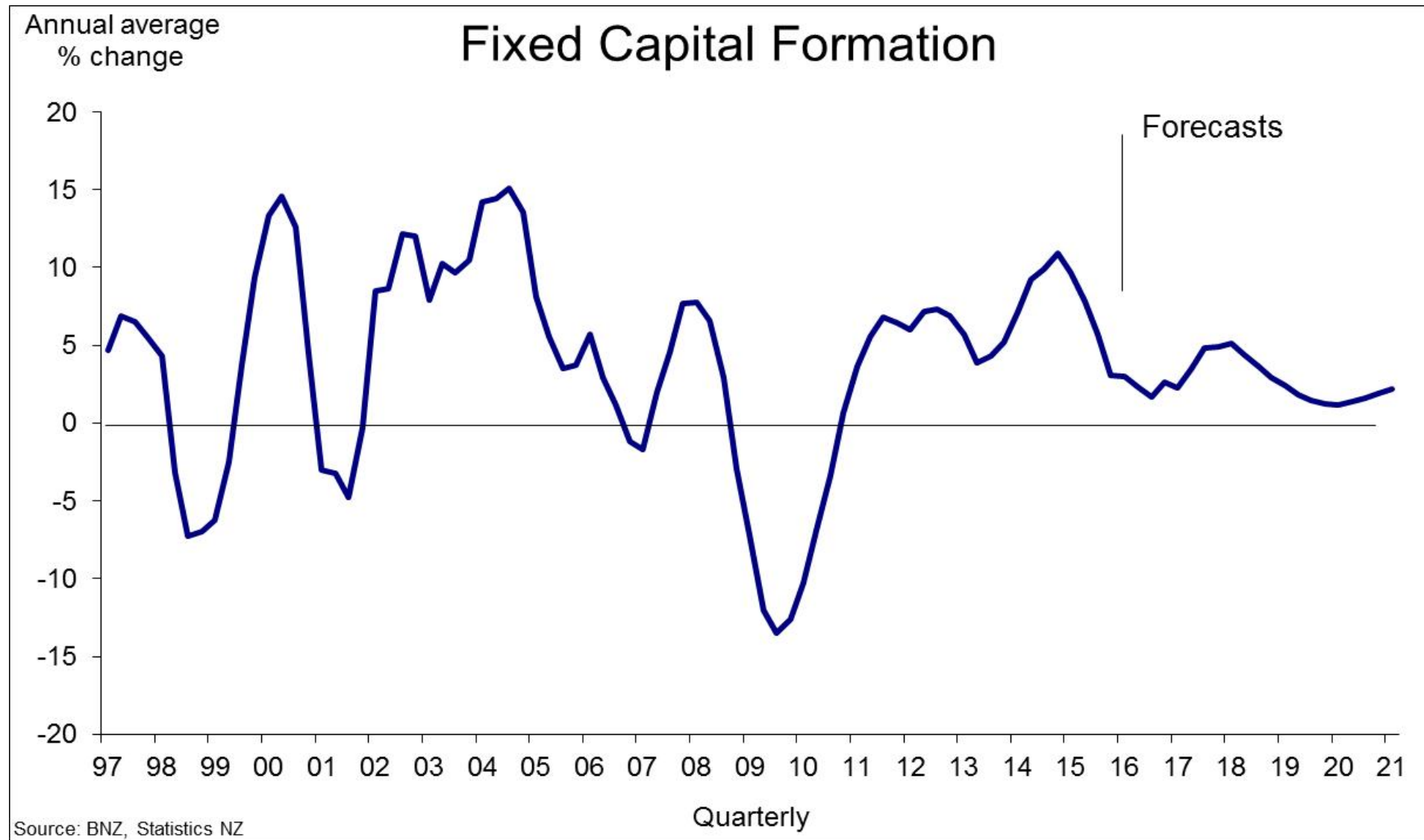


Compositional Shifts Occurring

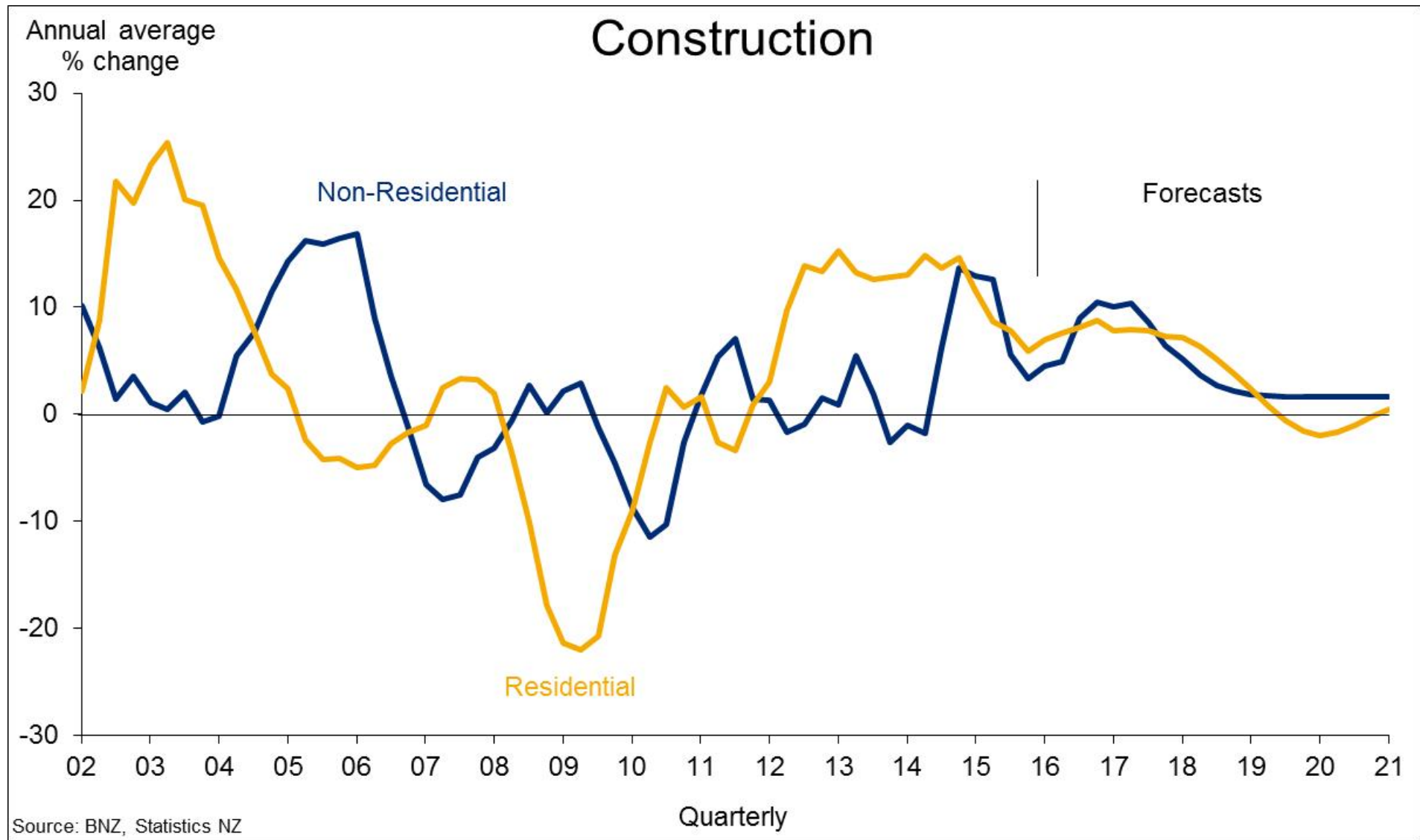


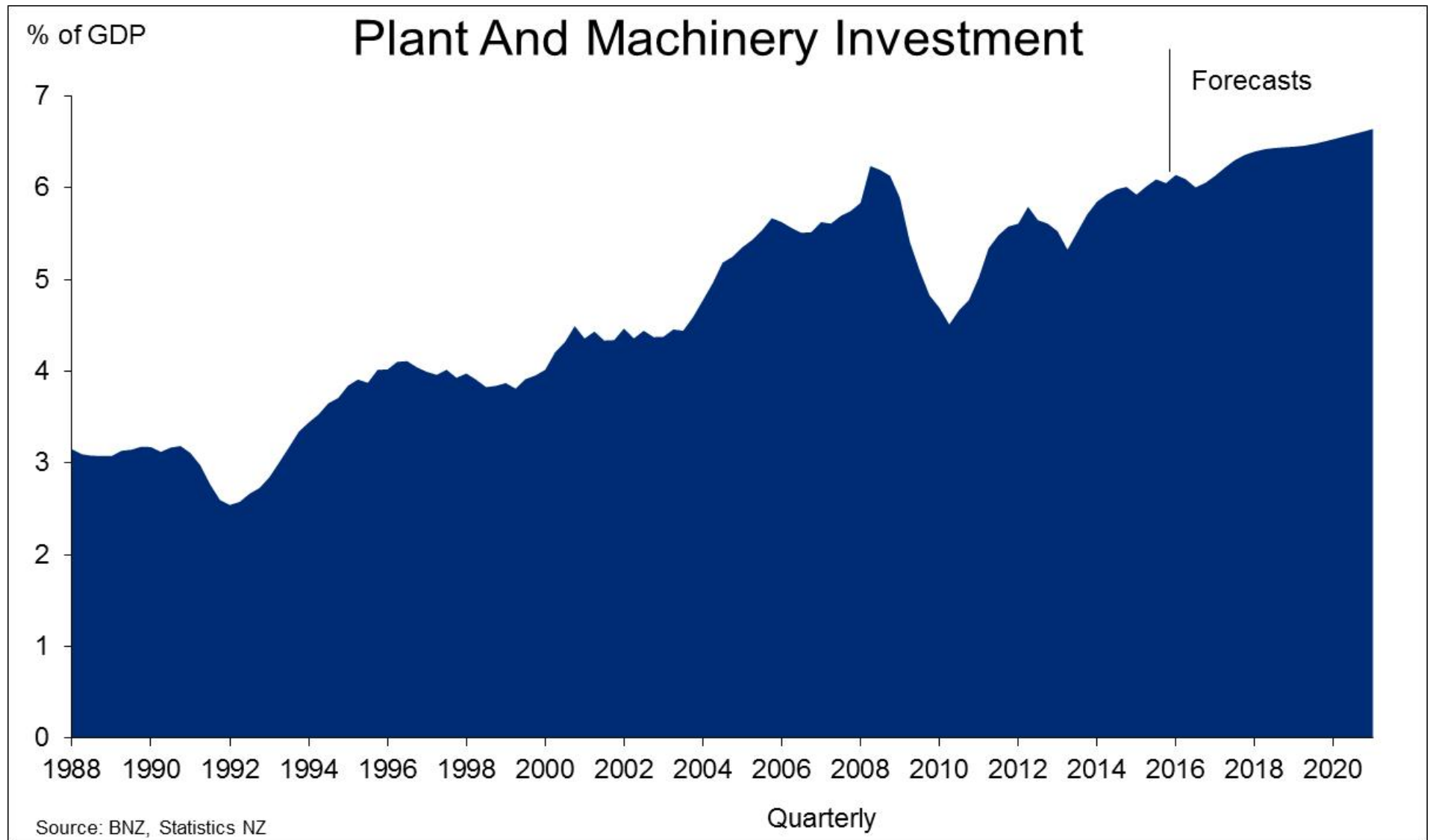
Reliant On Exports

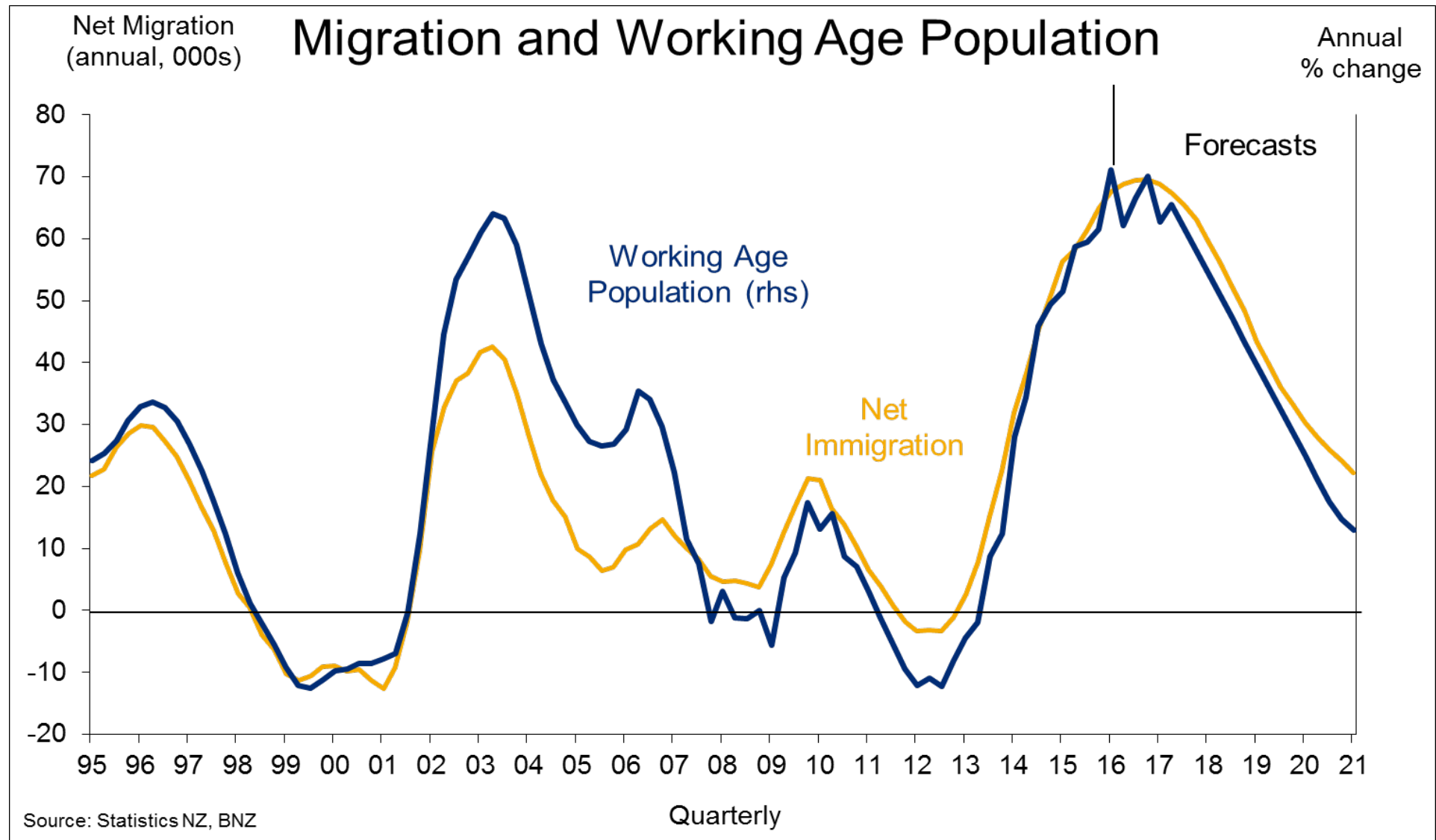




A Construction Slowdown



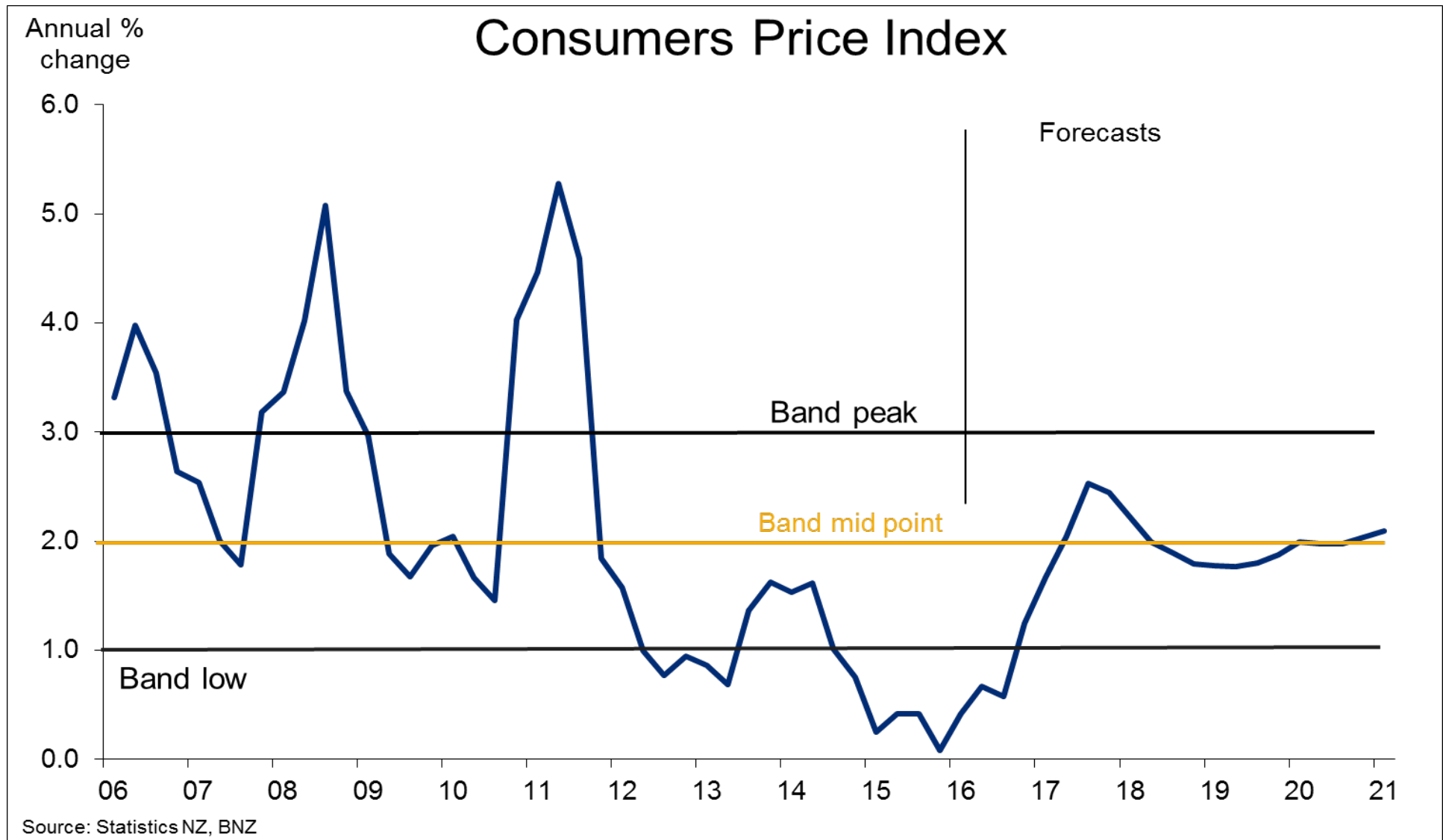


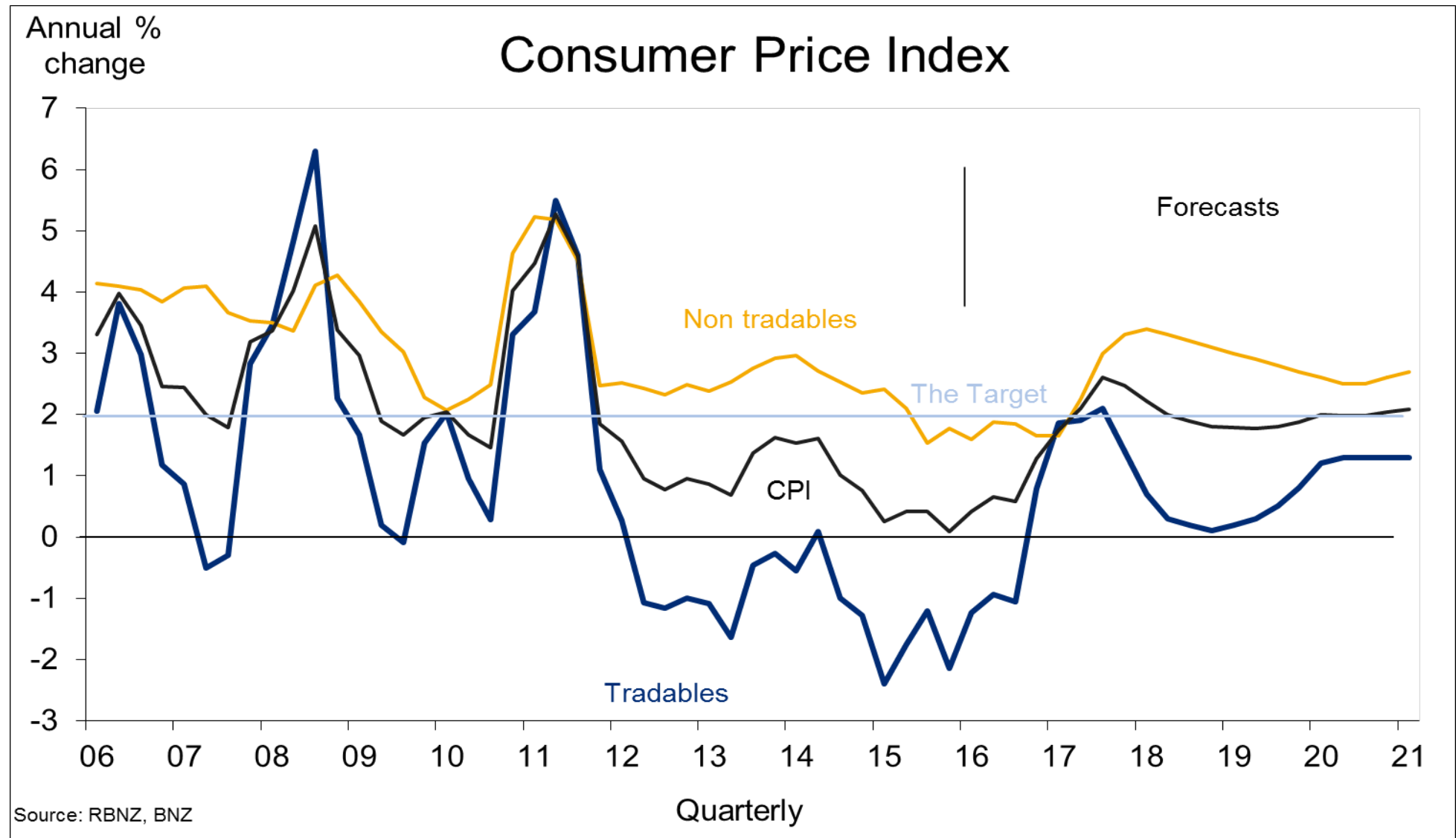


To Get A Recession

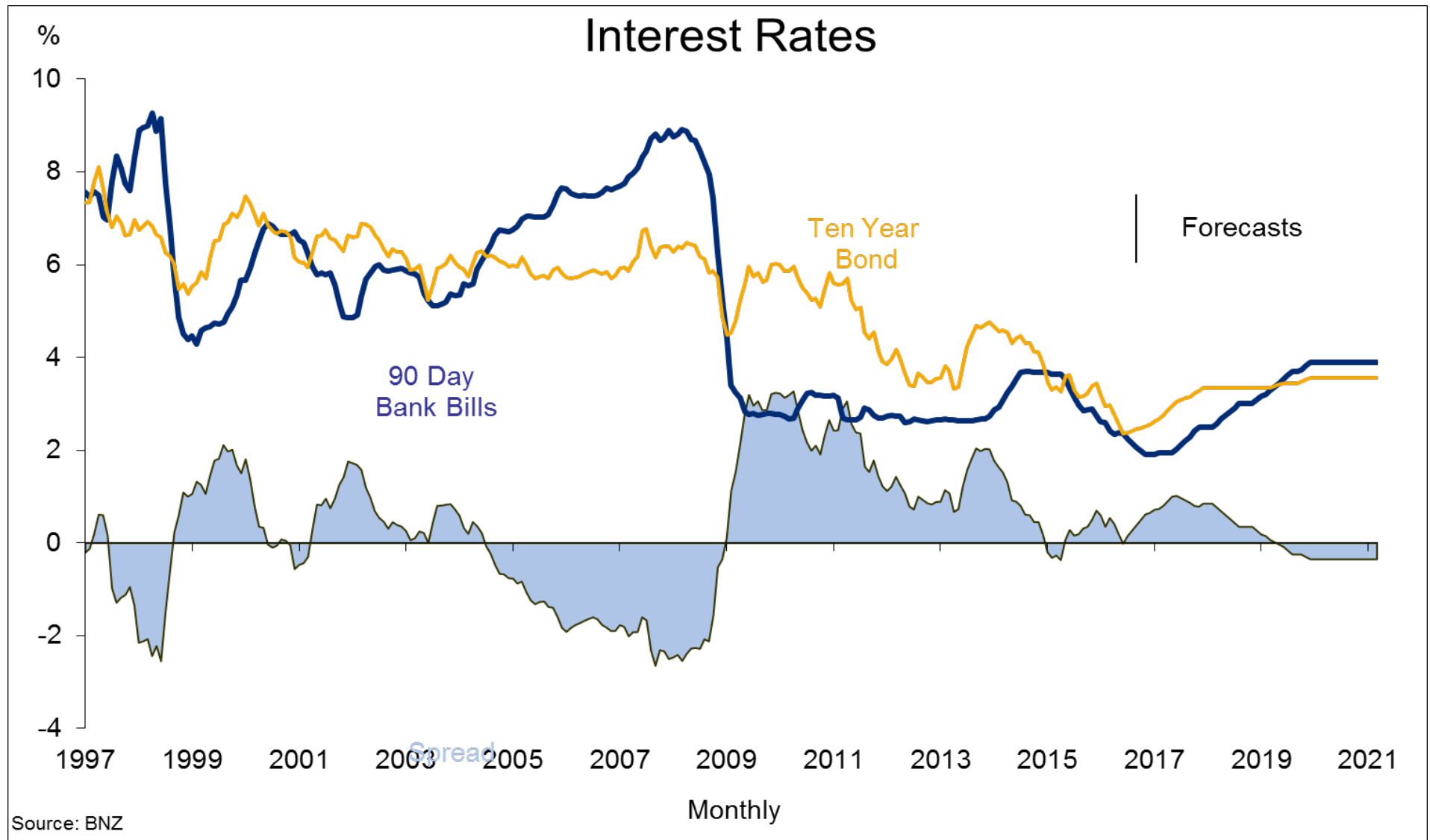
- *Drought*
- *RBNZ tightening*
- *Global shock*

A Modicum Of Inflation?





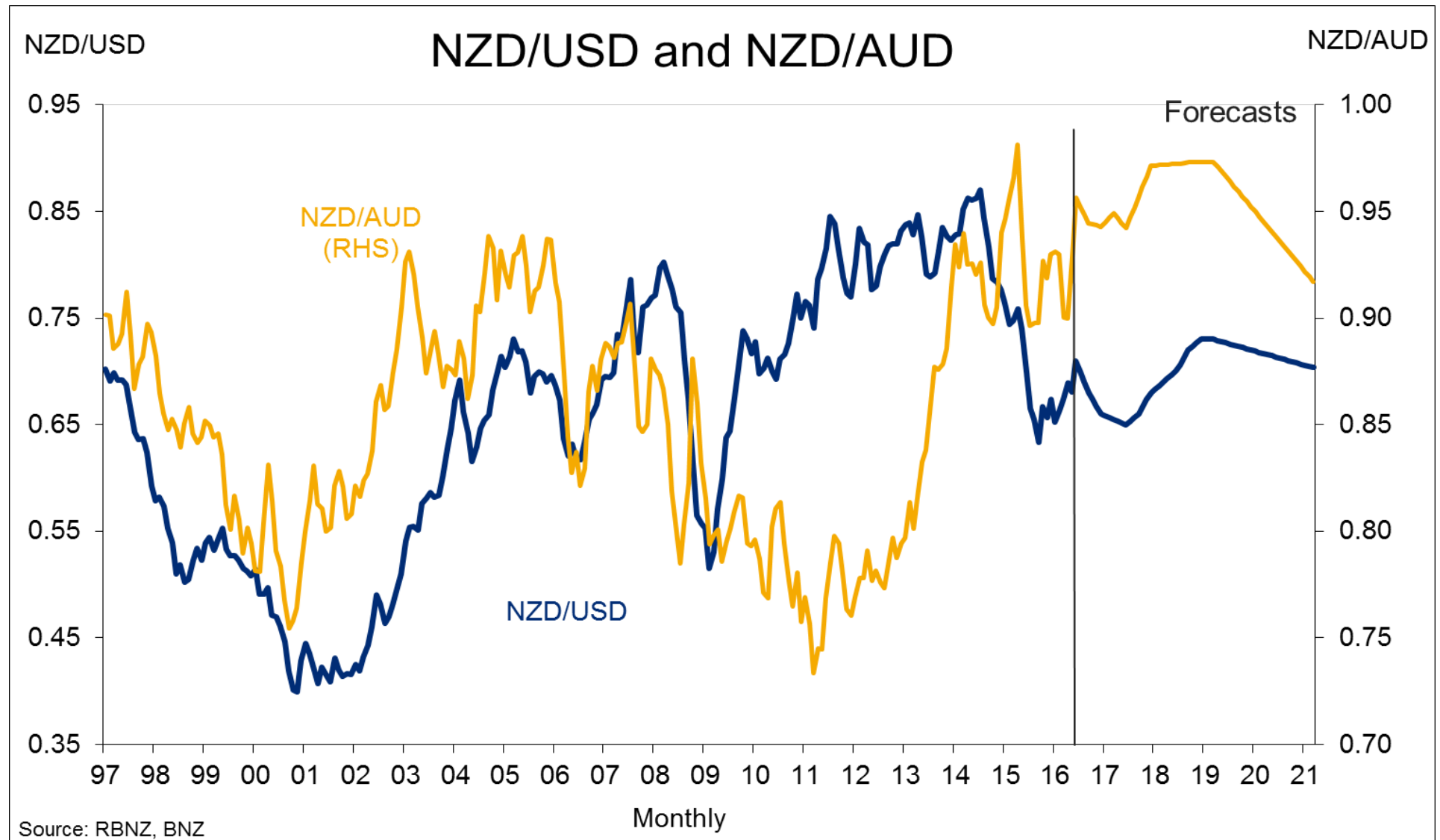
Interest Rates Low For Long



Lower Interest Rates Than The Past? (IBCA)

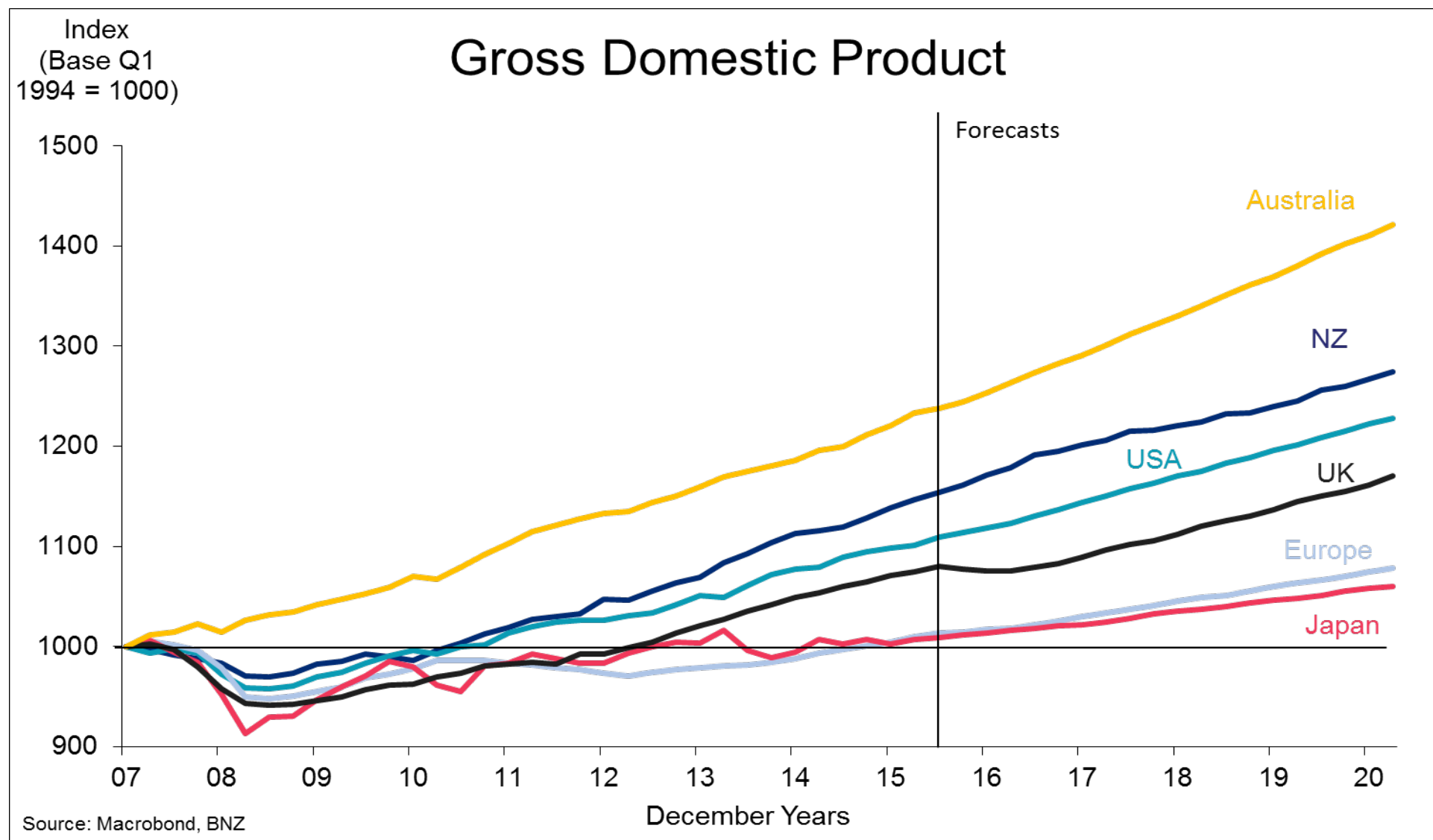
- ***End to debt supercycle means that boost to spending that increasing debt generated will wain;***
- ***Slowing population growth;***
- ***Increase in inequality (shift to higher income households) reduces MPC;***
- ***Level of debt***

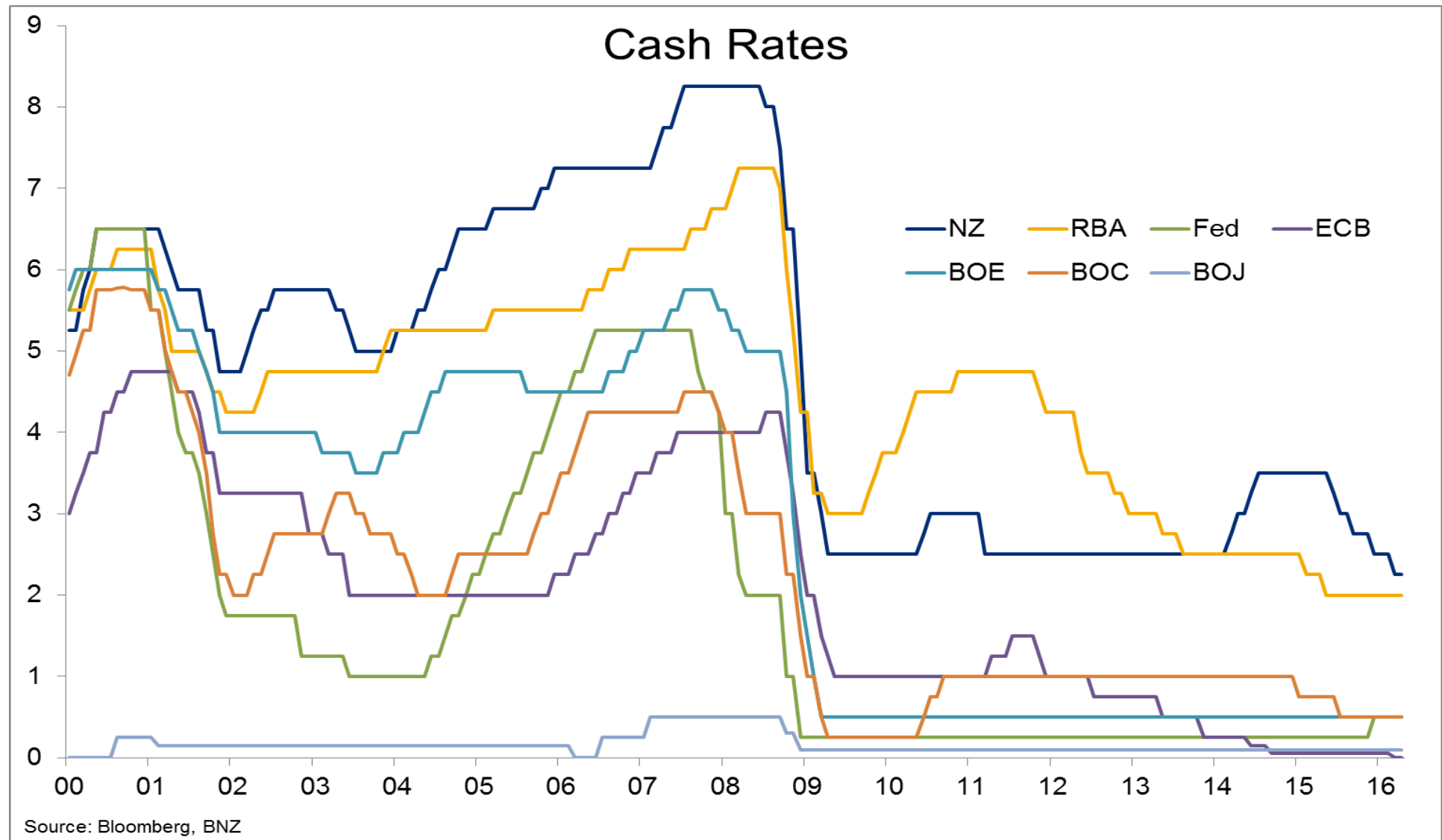
Currency Relief A Forlorn Hope



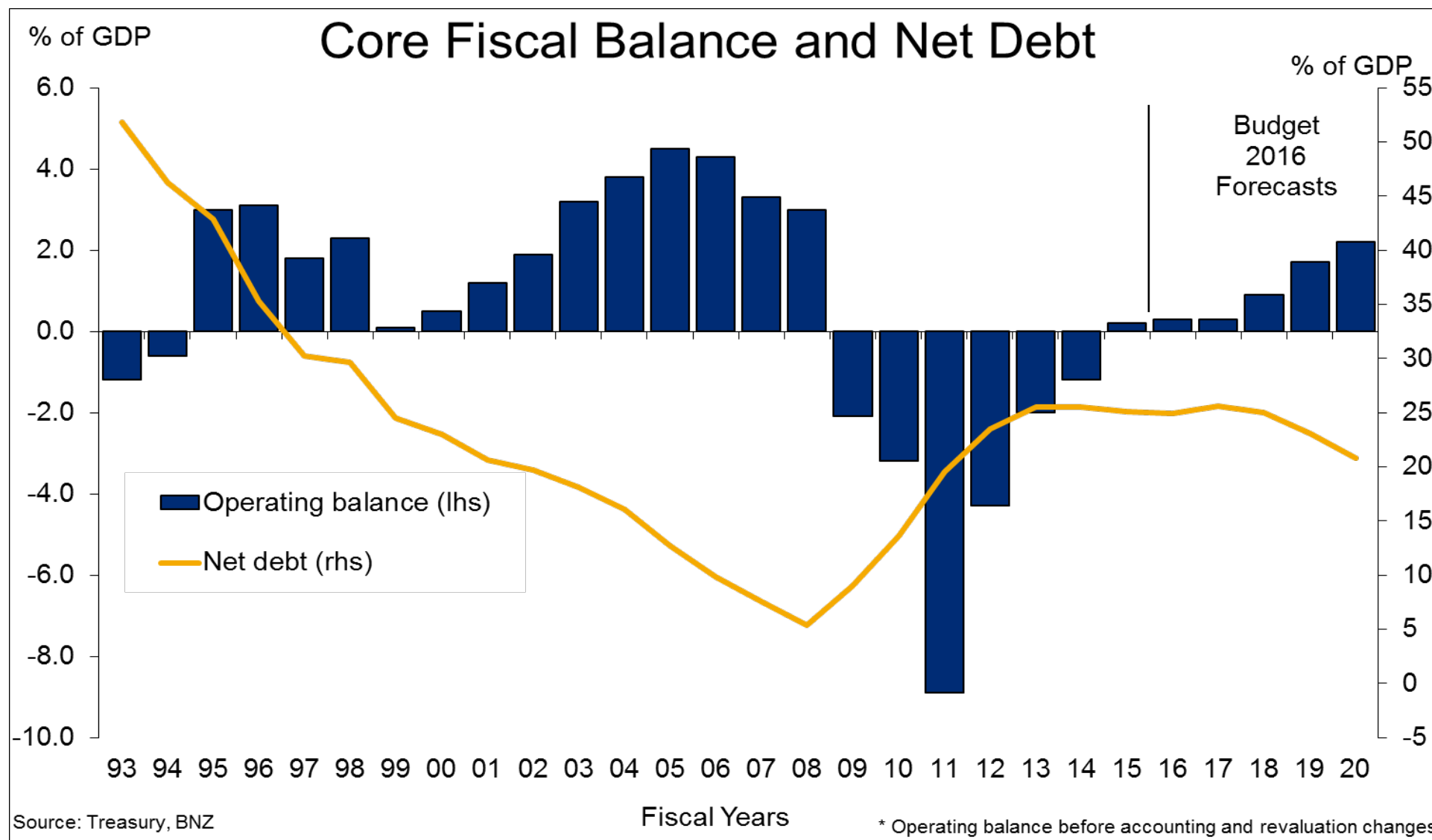
NZ In The Prime Seat

- ***Can ease***
- ***Can stimulate***
- ***External accounts not so bad***

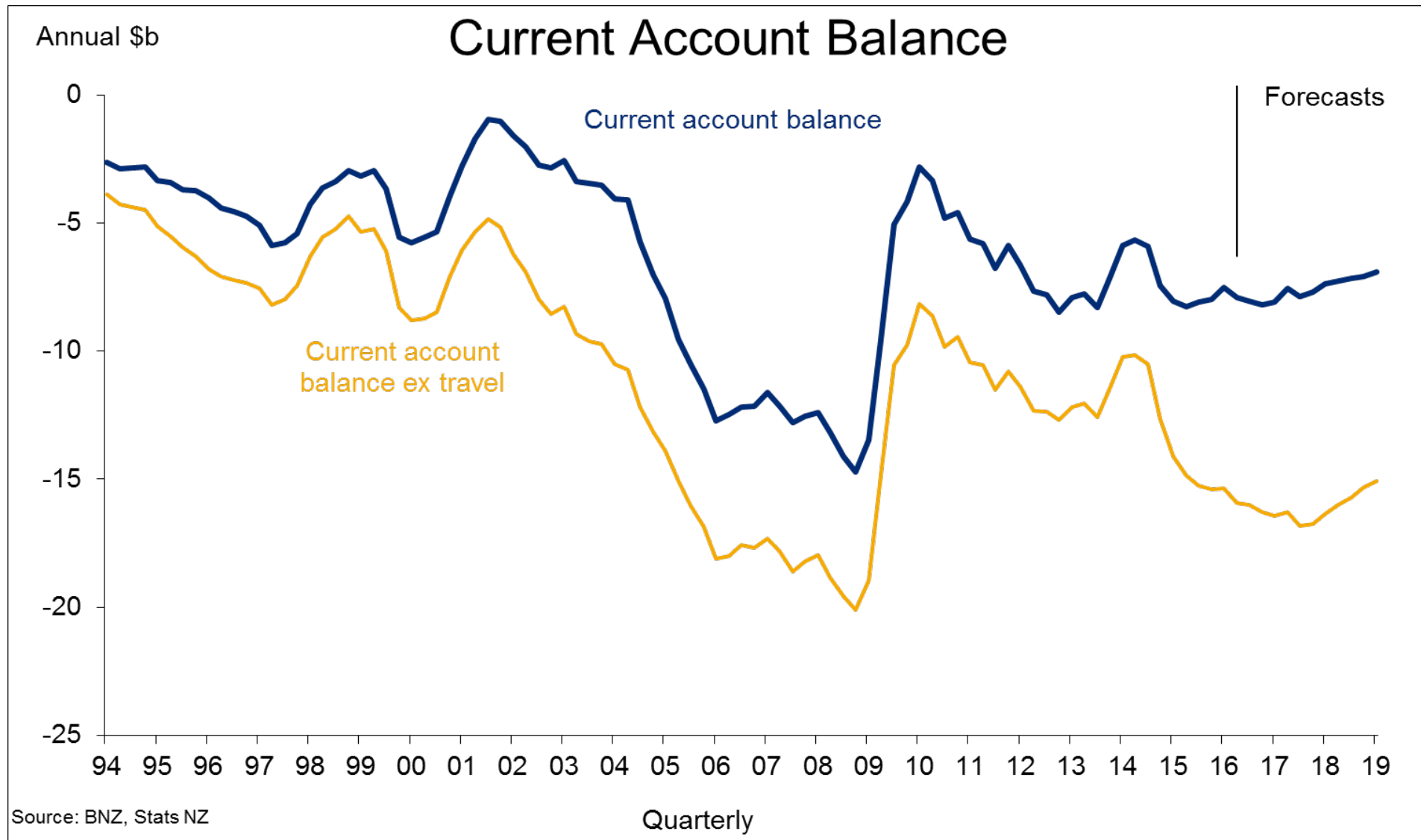




Fiscal Stimulus Available



External Accounts Less Binding



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