

# Fiscally sound and seeking growth

...we need more infrastructure.

**Jarrold Kerr**  
Chief Economist

**Jeremy Couchman**  
Senior Economist

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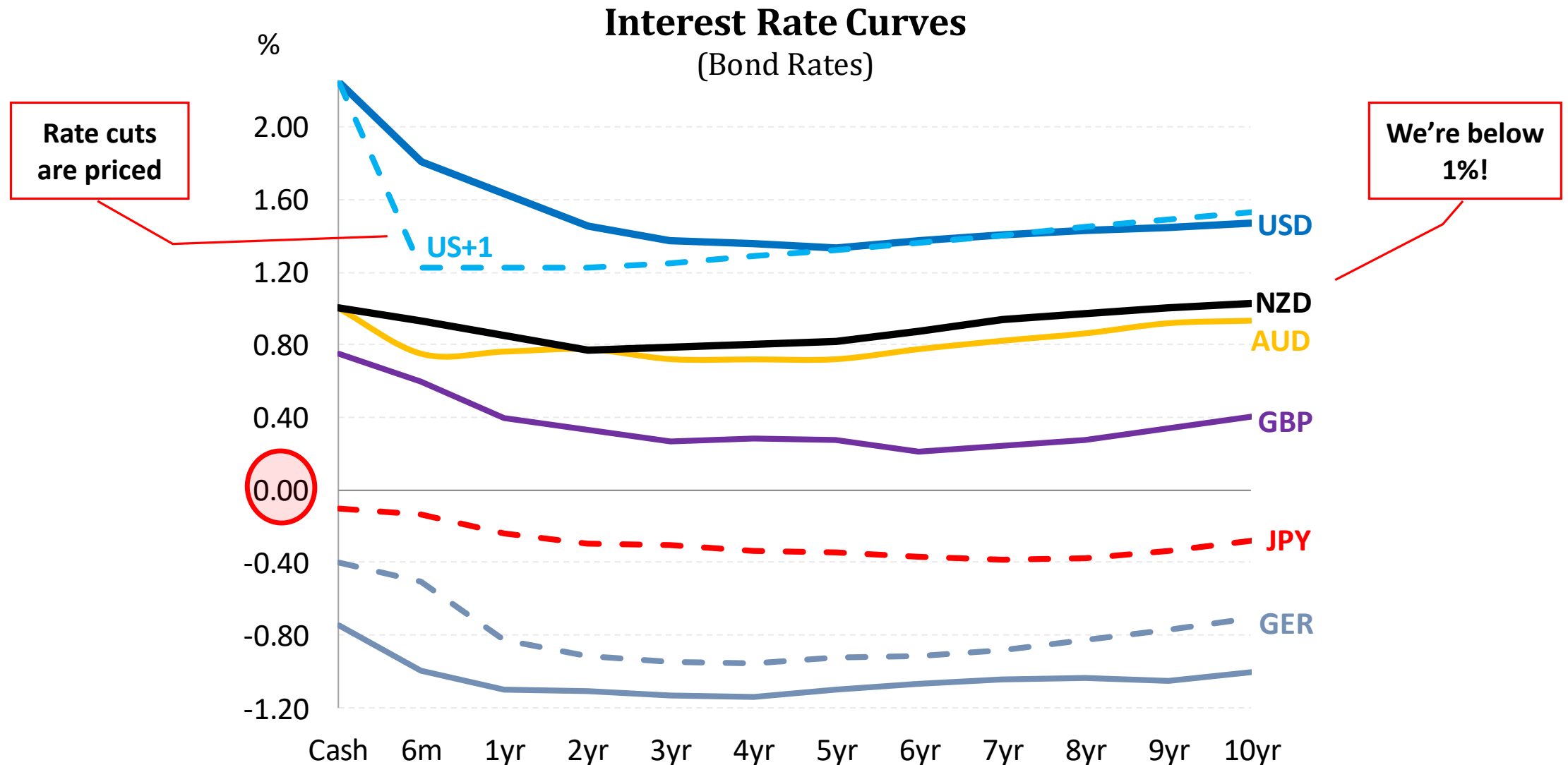
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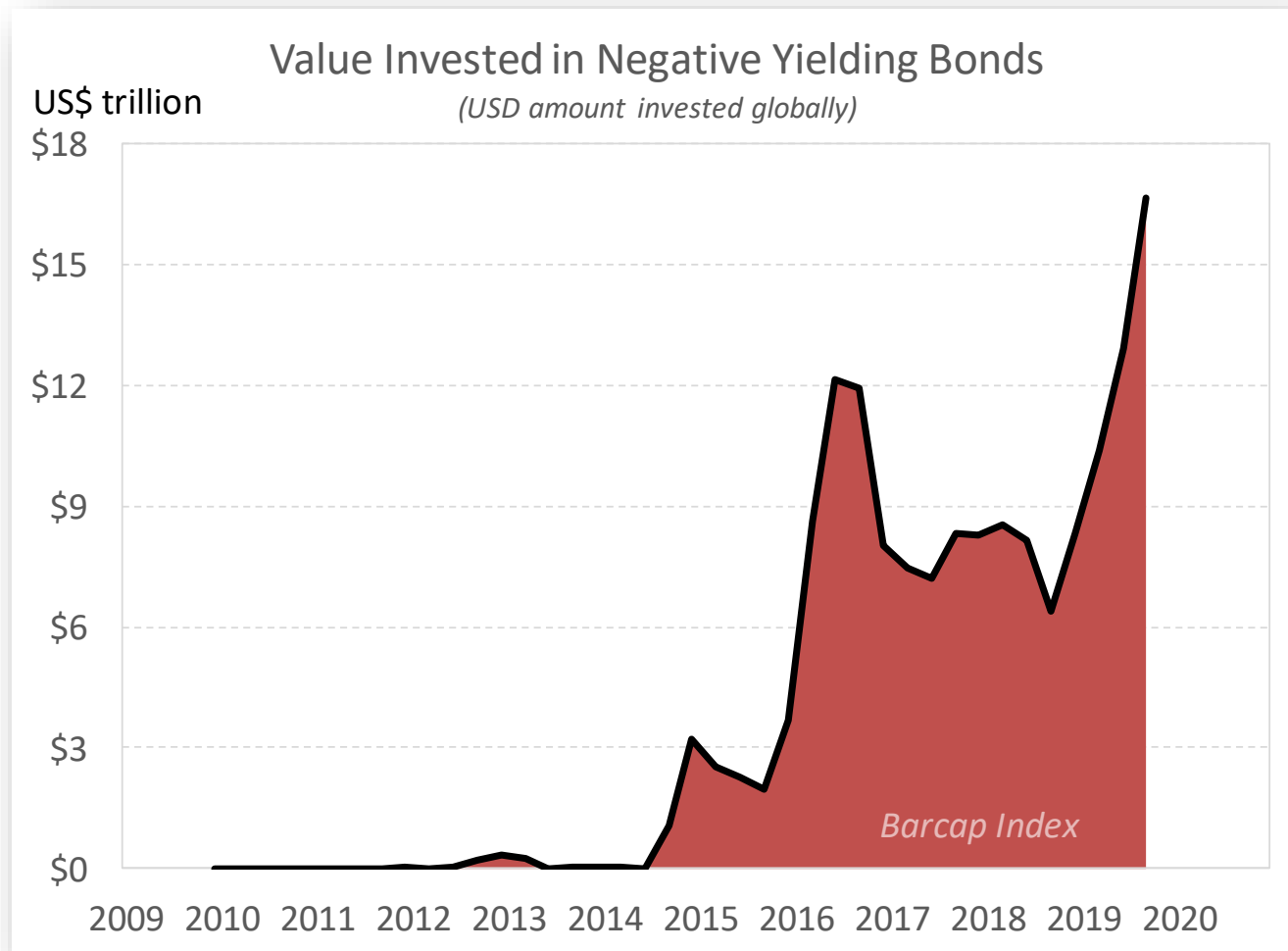
# Everything we need to know...

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

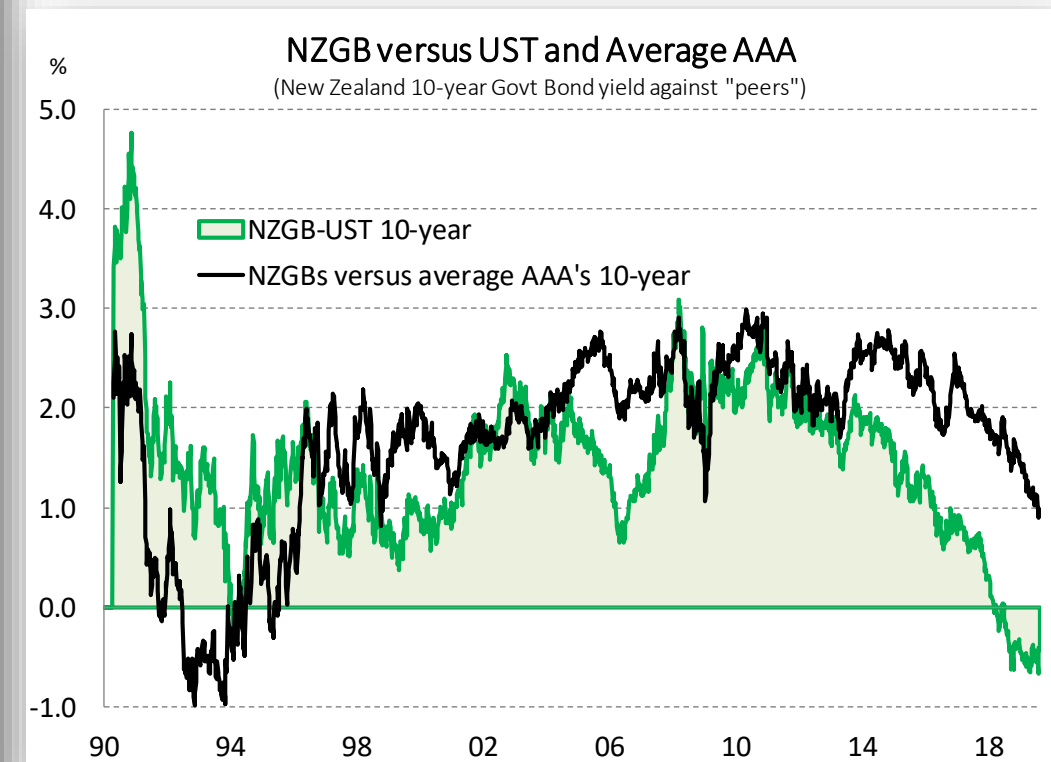


# Term interest rates are falling... fast.

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



KIWI bonds are still attractive.

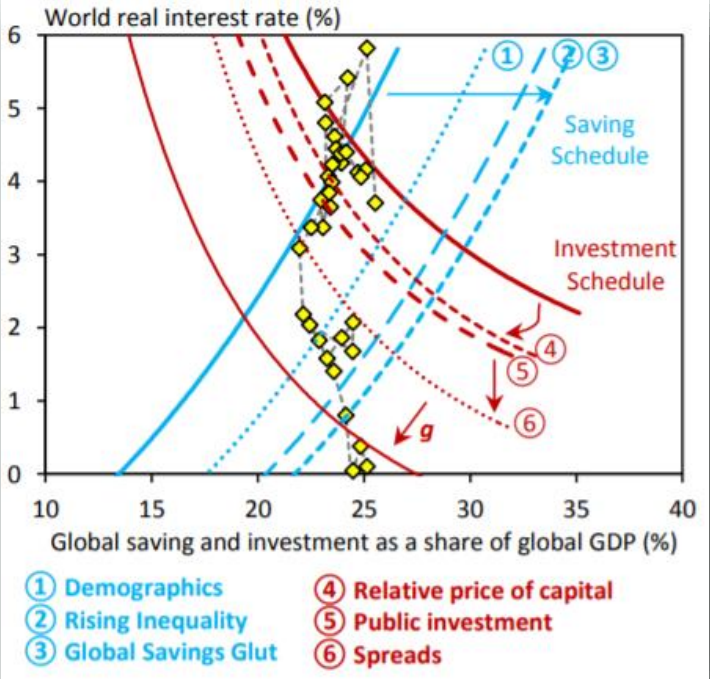
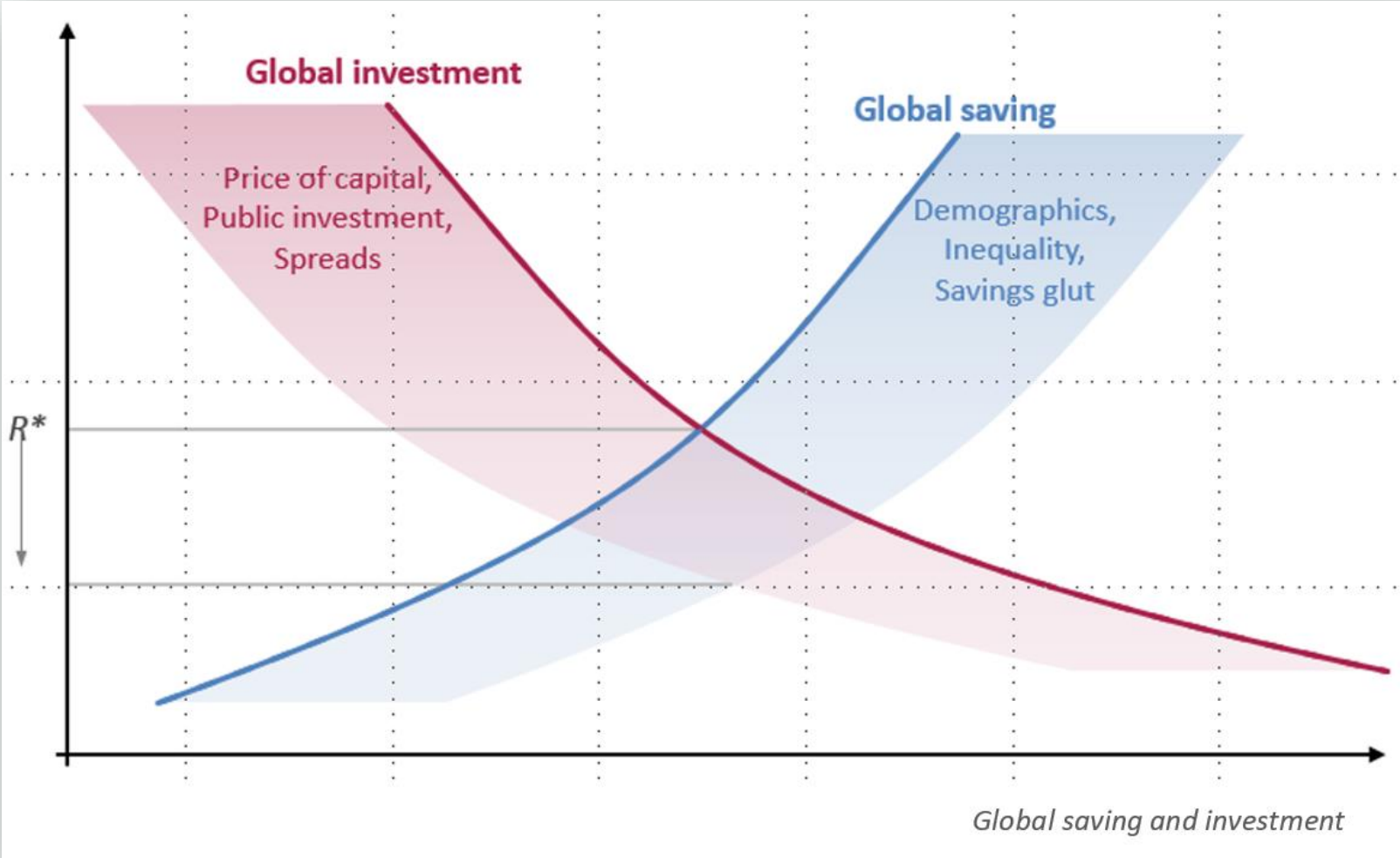


# There are 5 reasons for record lows

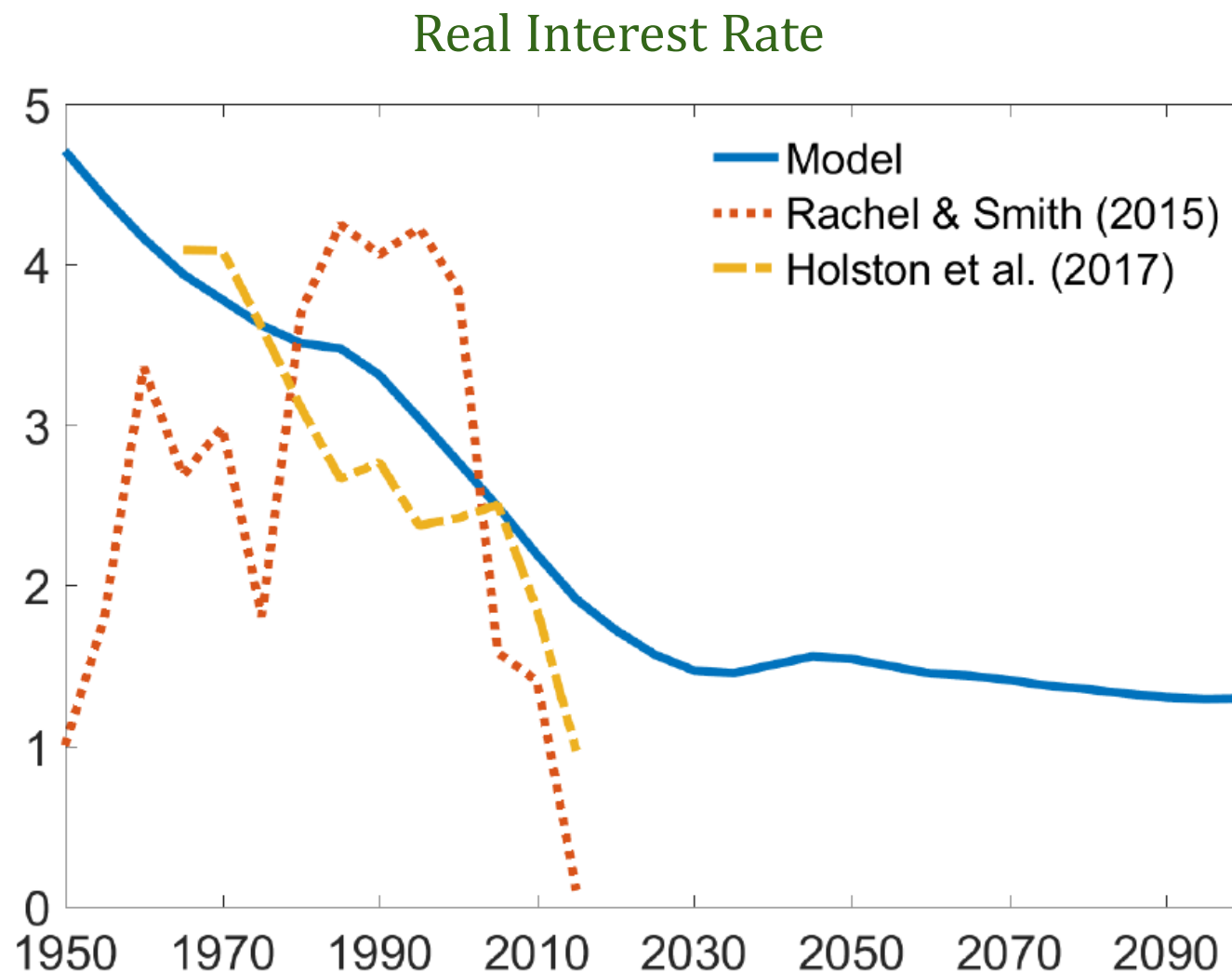
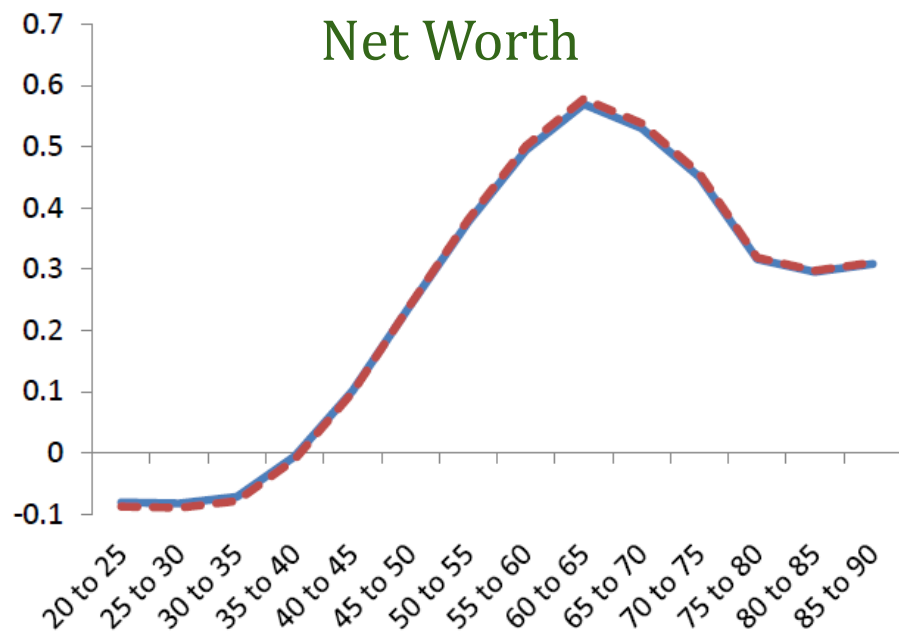
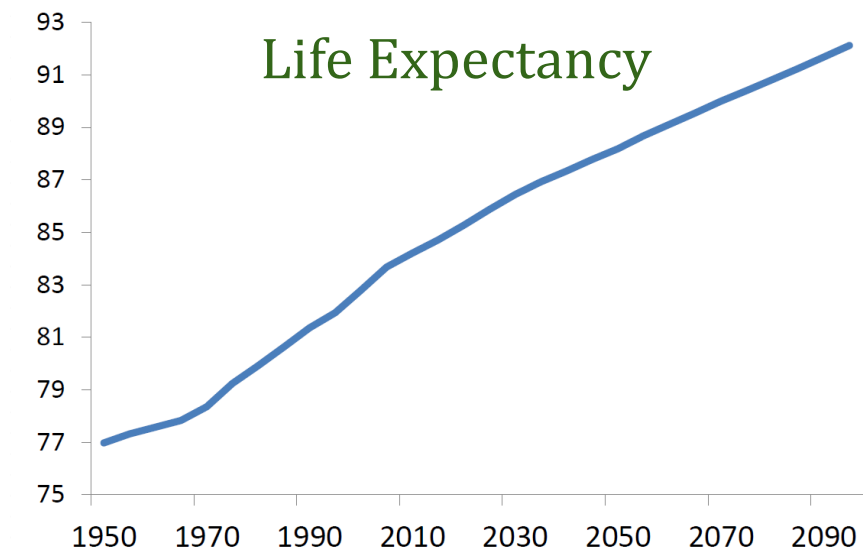
- rates:**
1. Demographics
  2. Inequality
  3. Populism
  4. Disruption
  5. Fiscal  
austerity



# The secular decline in real interest rates, globally.



# #1 The tectonic shift in demographics

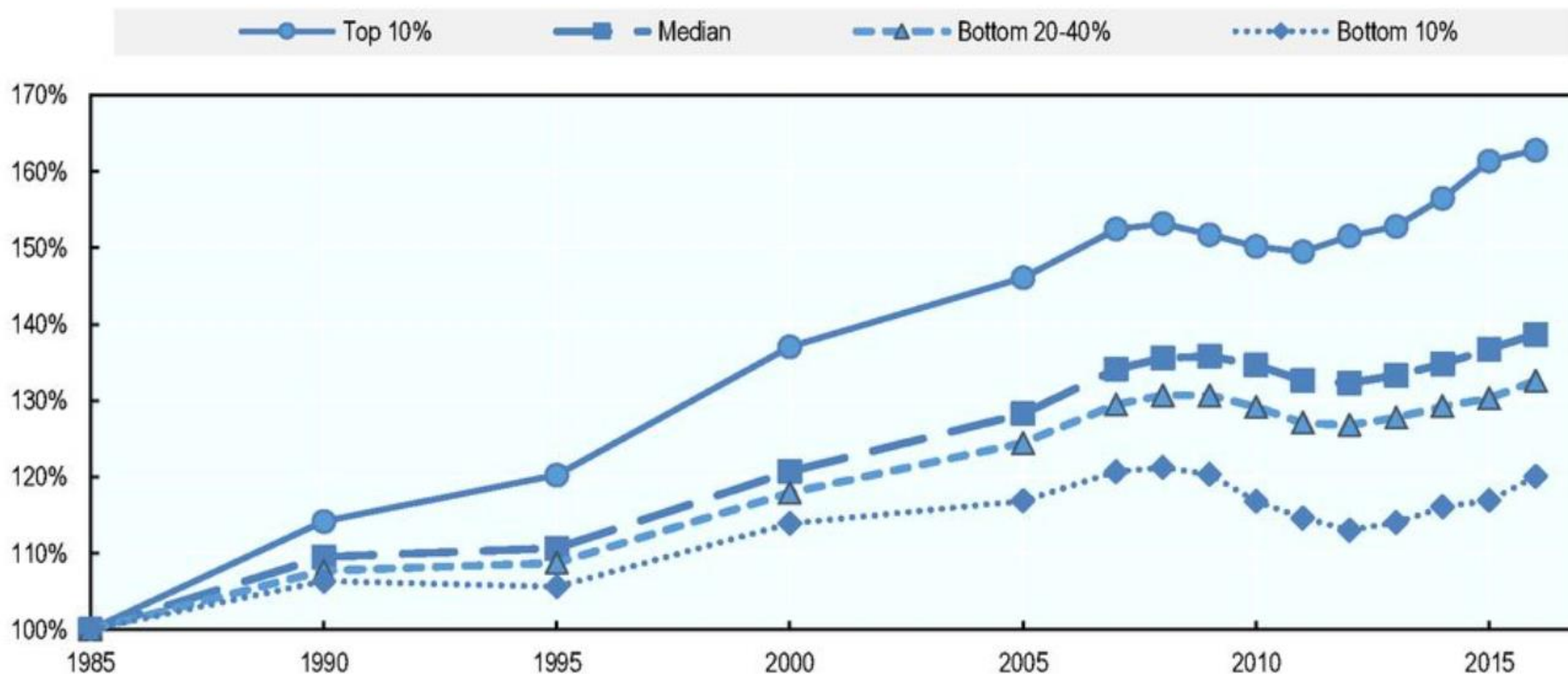




## #2 The rise in inequality is enraging many

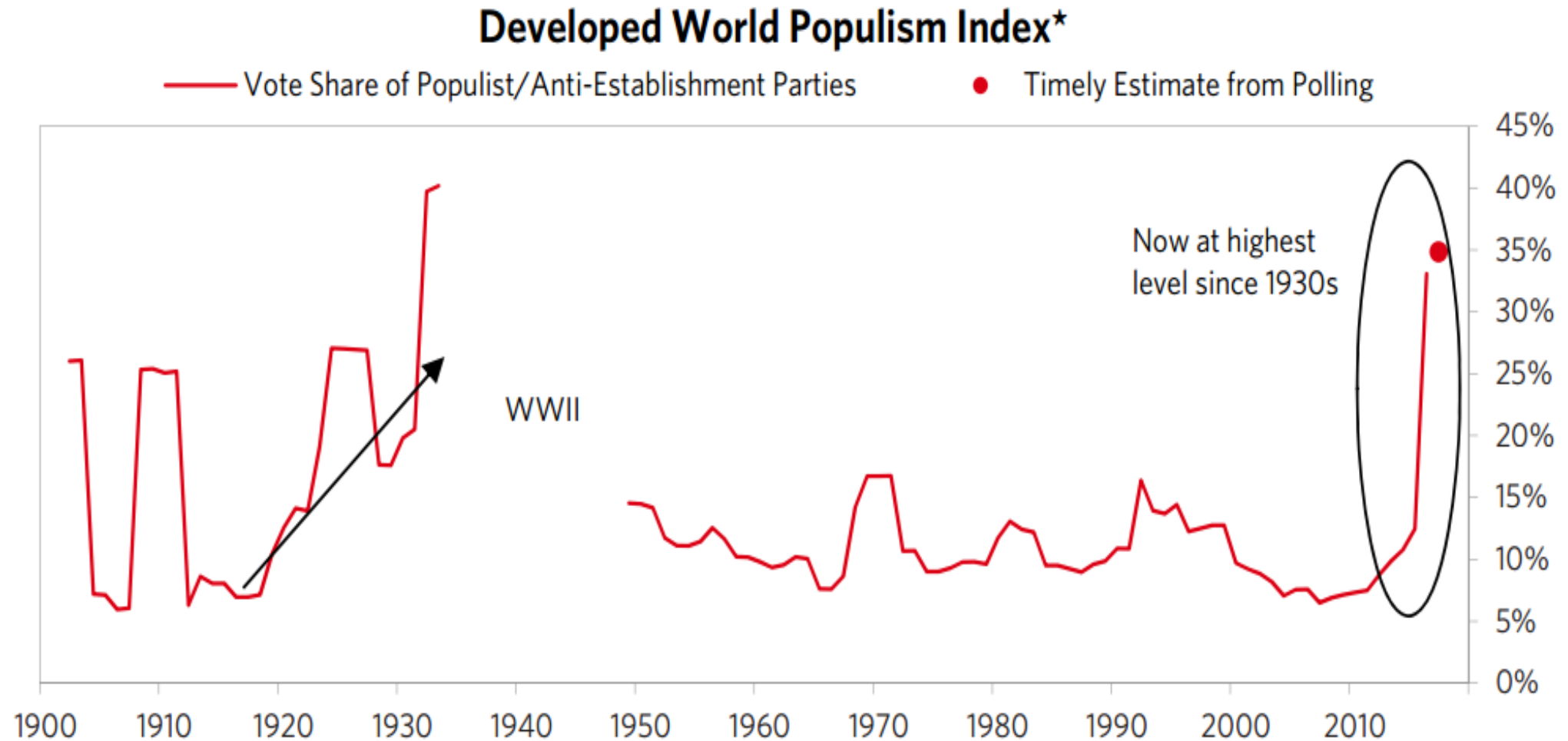
Weak wages growth, especially for the lower deciles.

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.



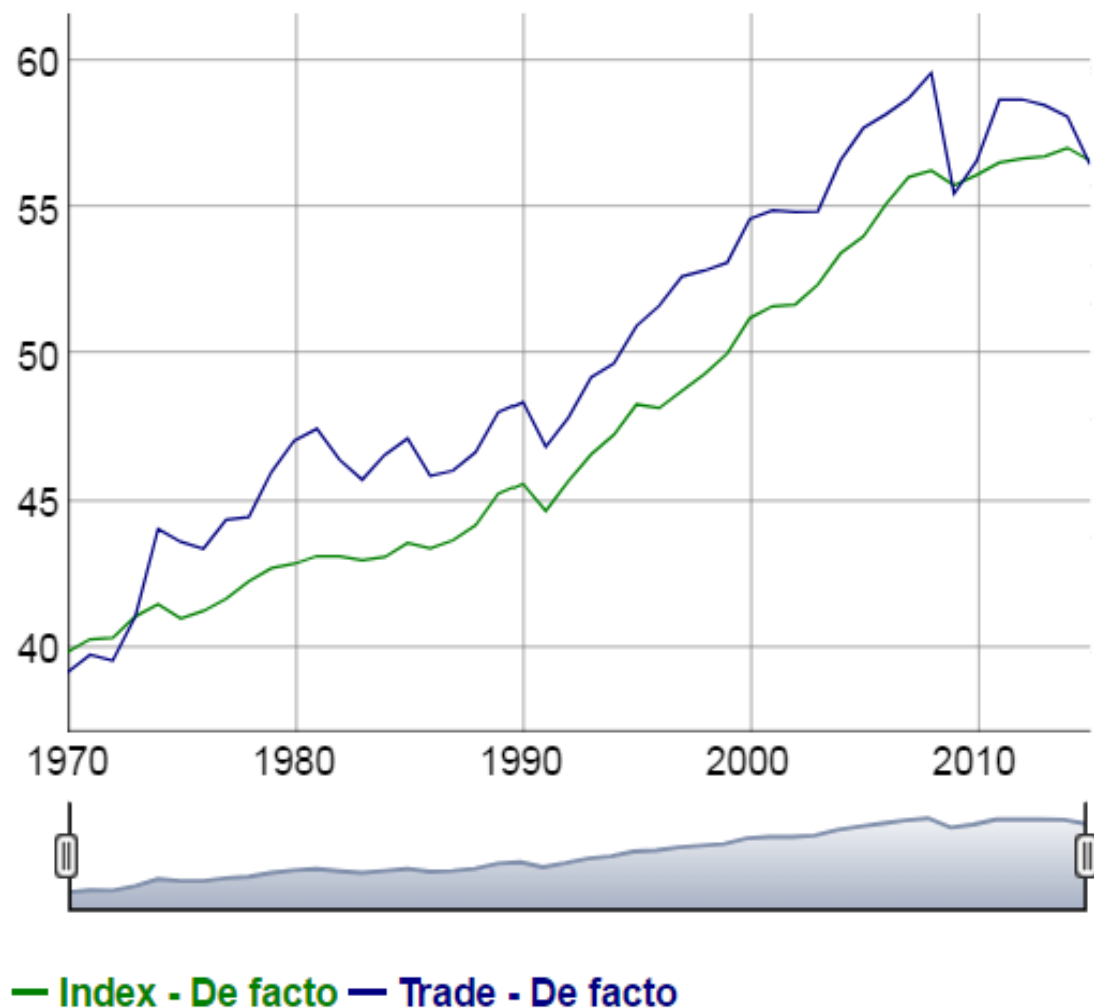
*\*The latest point includes cases like Trump, UKIP in the UK, AfD in Germany, National Front in France, Podemos in Spain, and Five Star Movement in Italy. It doesn't include major emerging country populists, like Erdogan in Turkey or Duterte in the Philippines. (Bridgewater Daily Observations)*



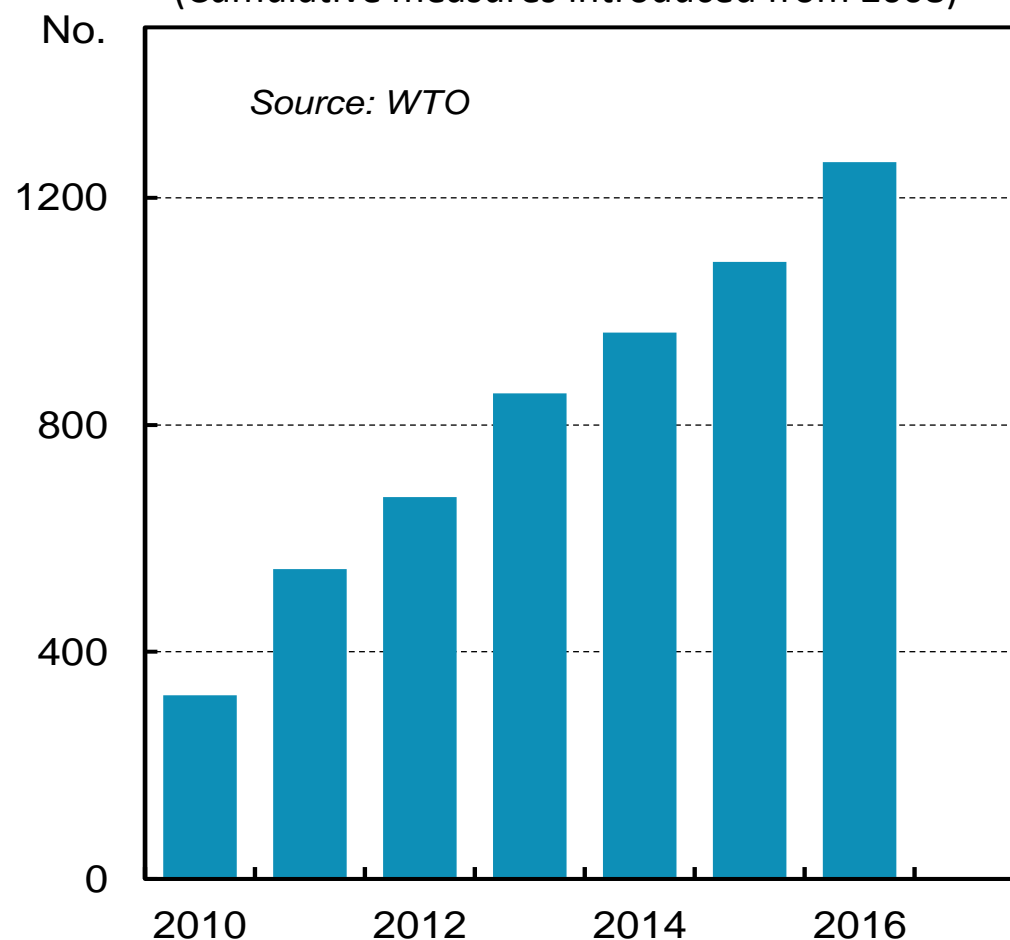
# #4 Disruption includes globalisation and technology

Protectionism is flaring up (again) post-crisis.

KOF Index of Globalisation  
(1970-2015)



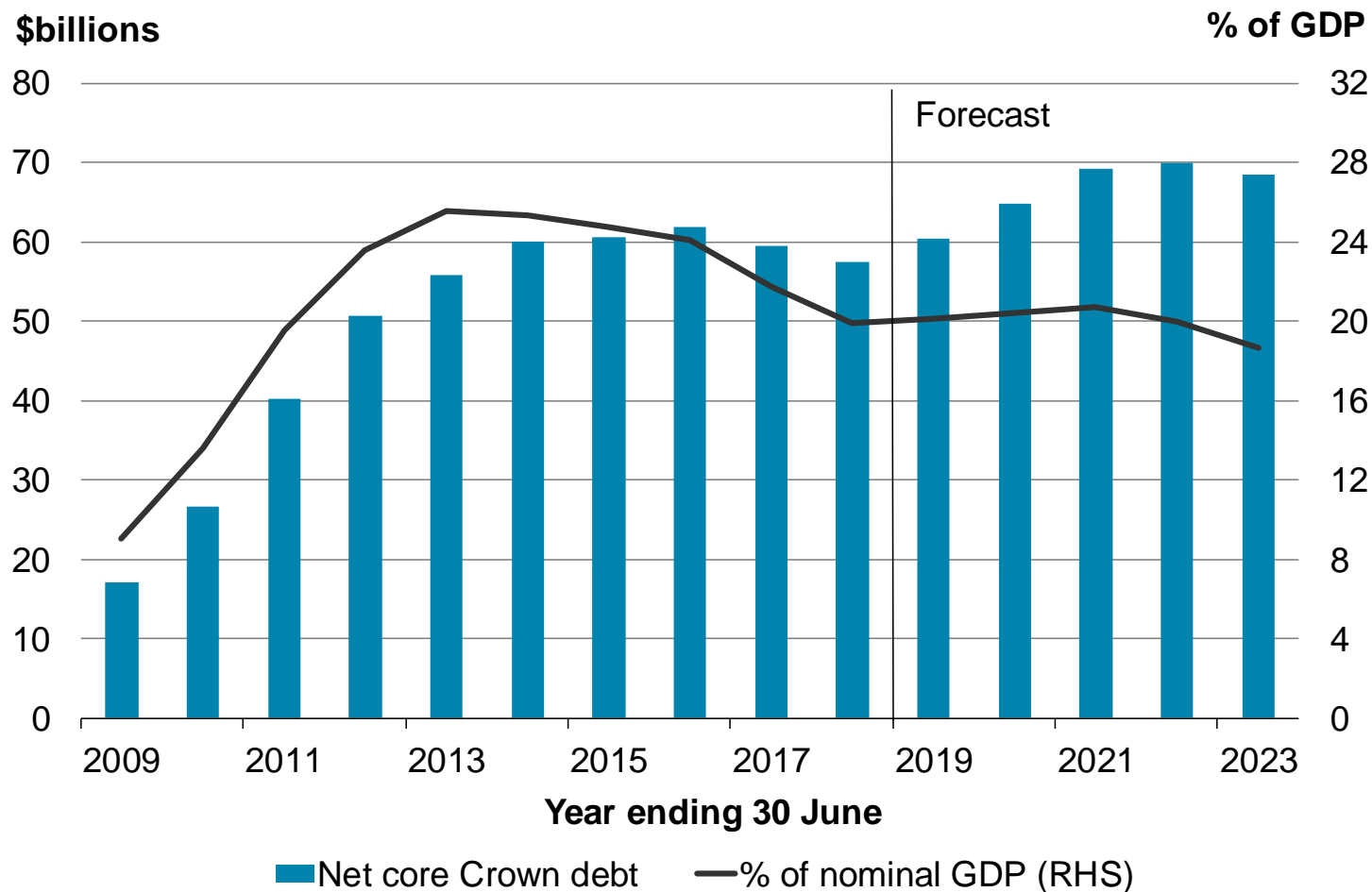
Trade Restrictive Measures in G20  
(Cumulative measures introduced from 2008)



## #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.”*

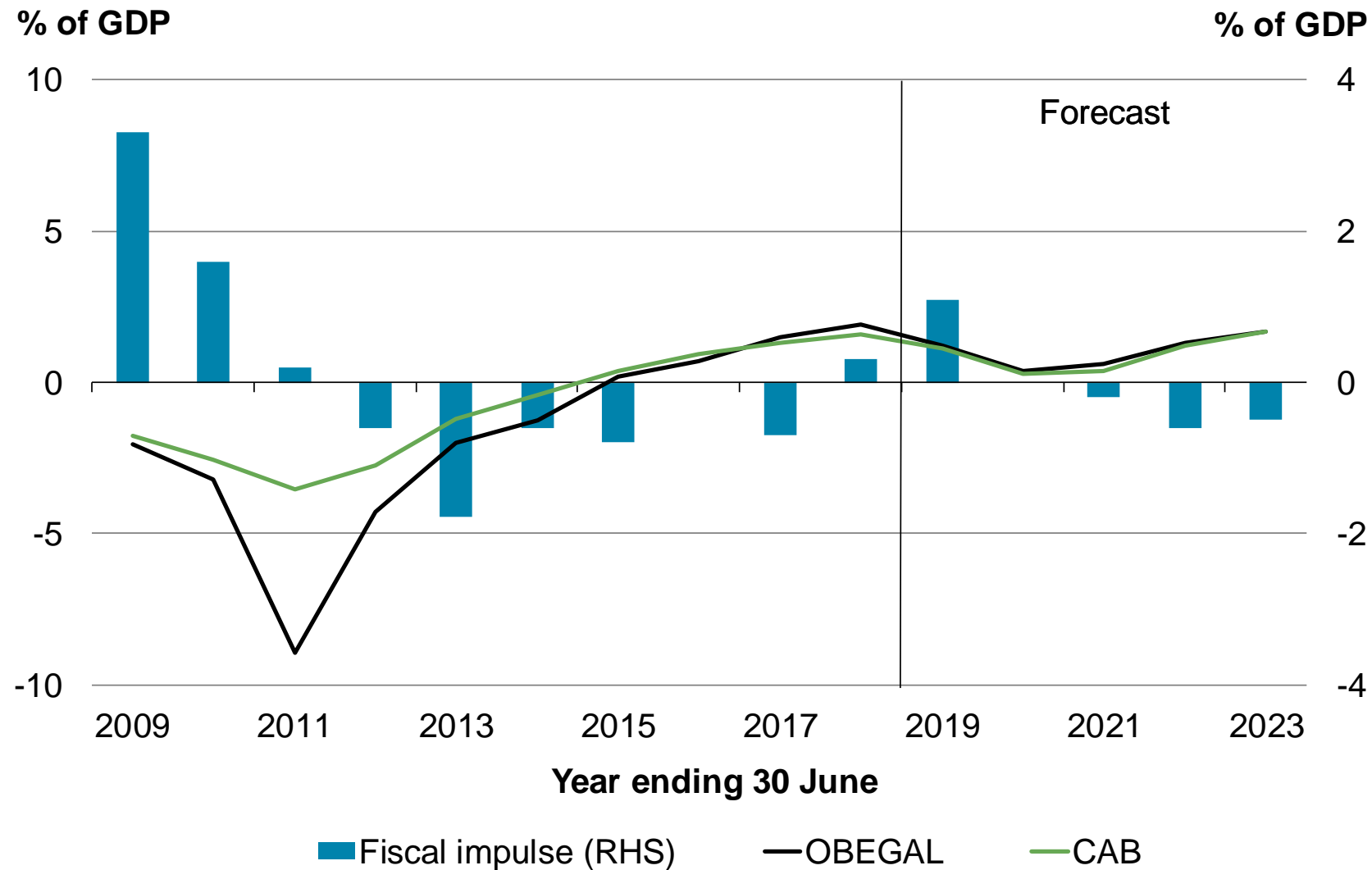
Christopher





# Keeping your finger on the impulse.

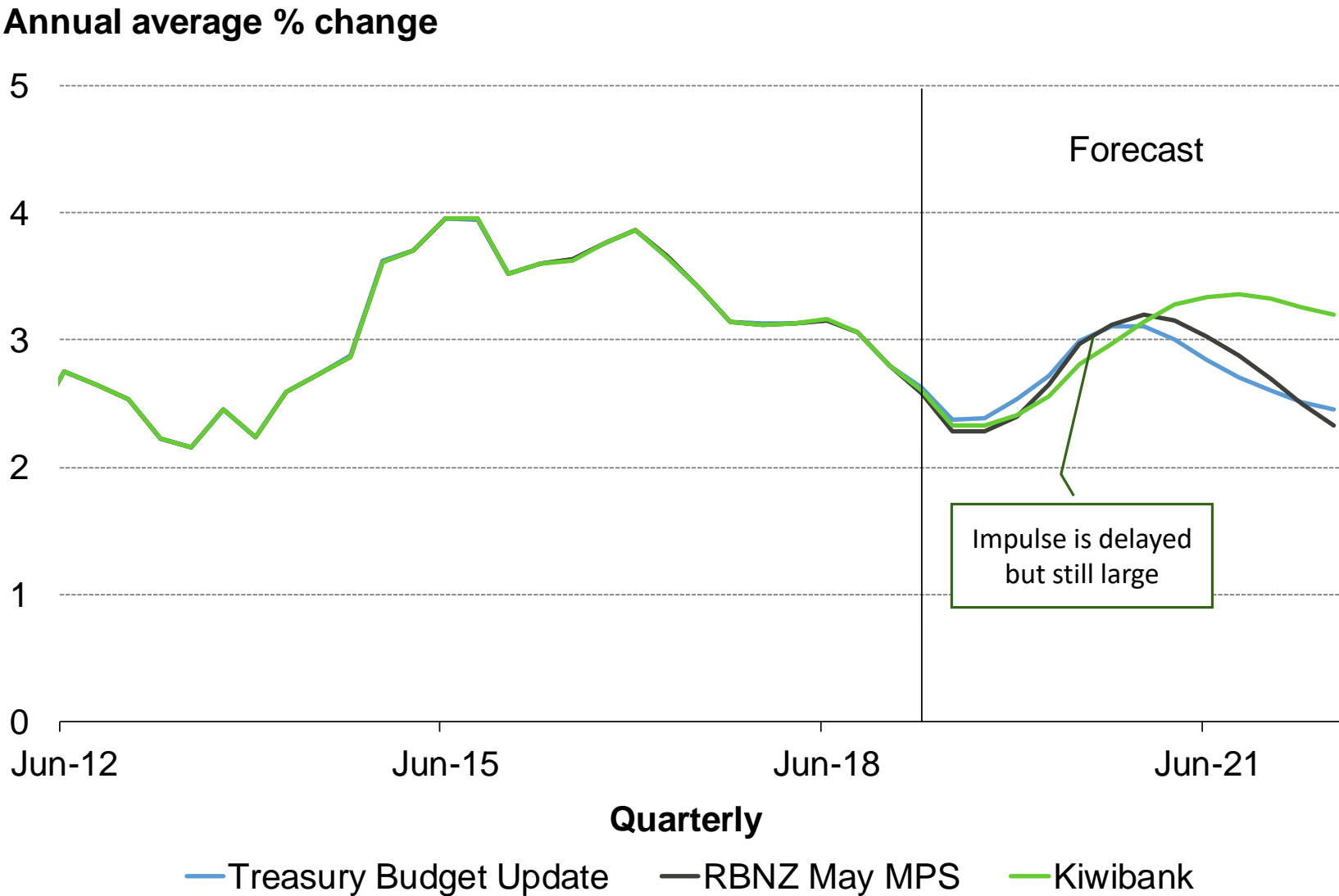
We get a good, delayed, lift from the Budget. But then we get a drag on growth...



# We are growing well, with a boost to come.



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

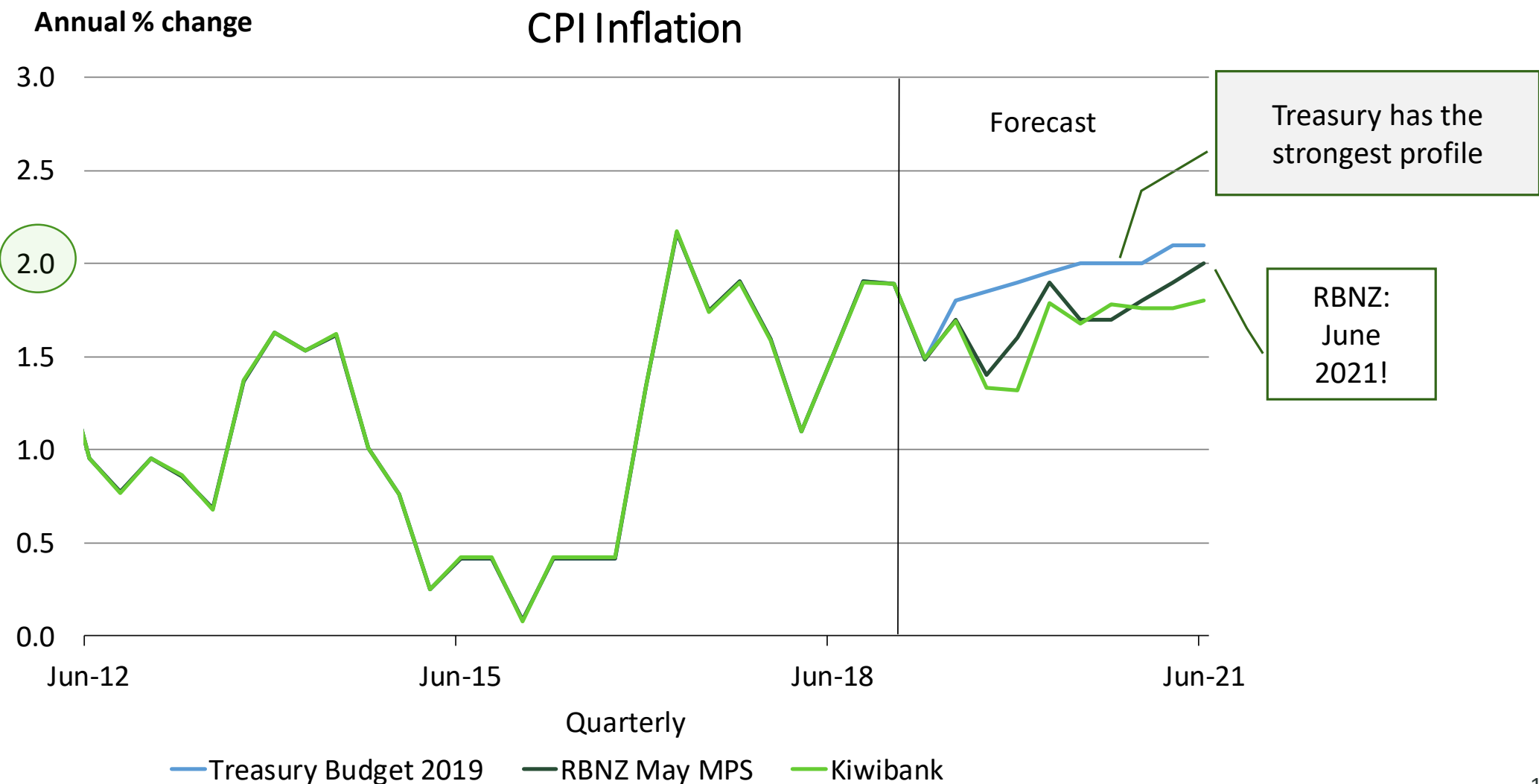




# Inflation is still some way away.

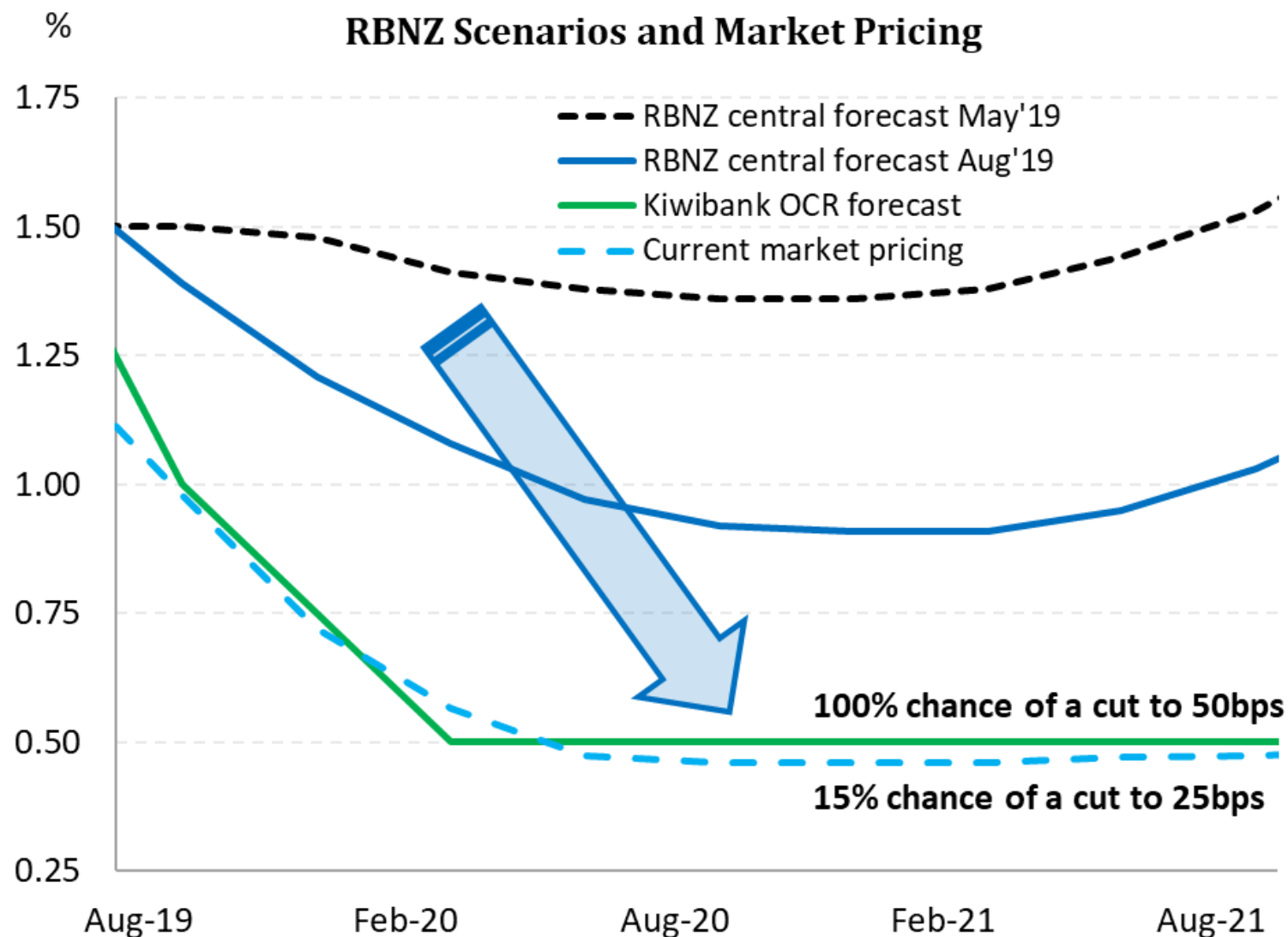


Treasury is the most optimistic, well ahead of the RBNZ and Kiwibank.



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

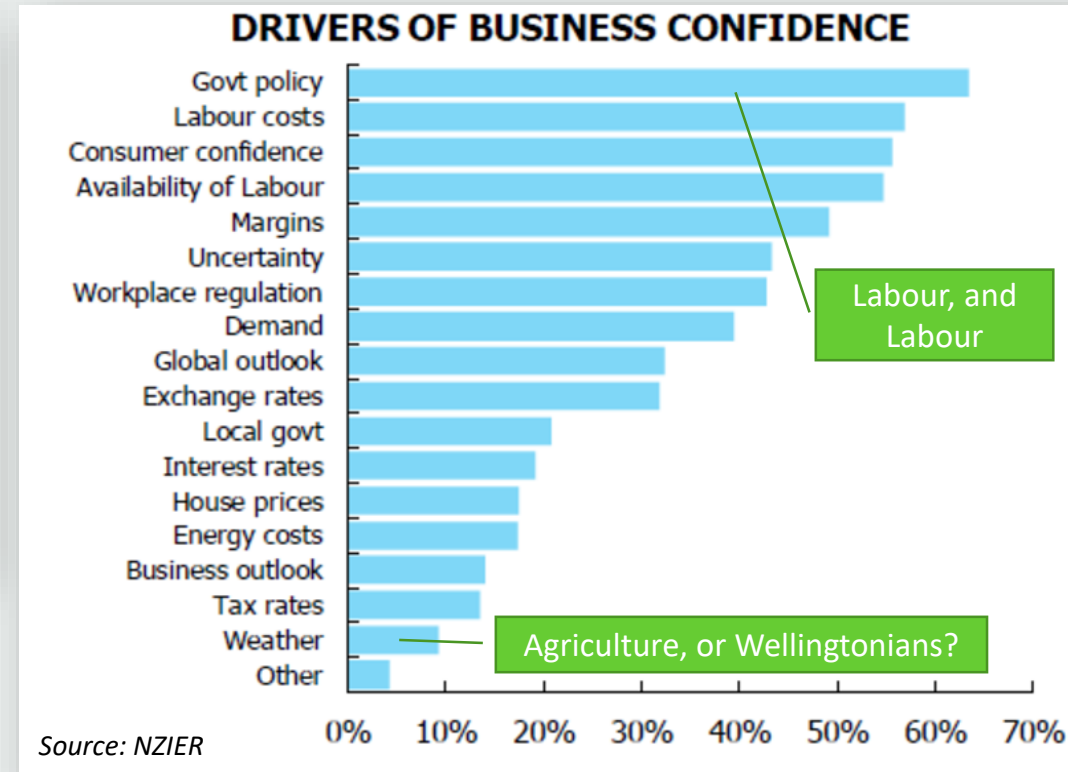
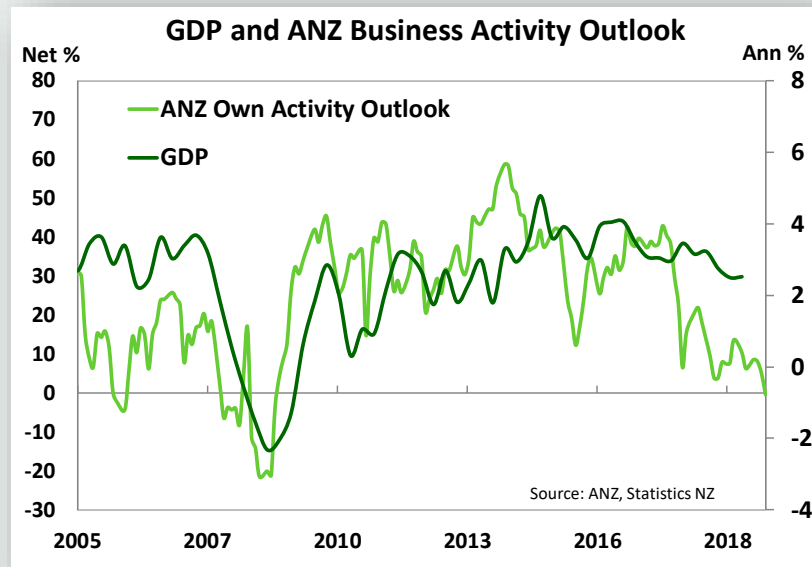
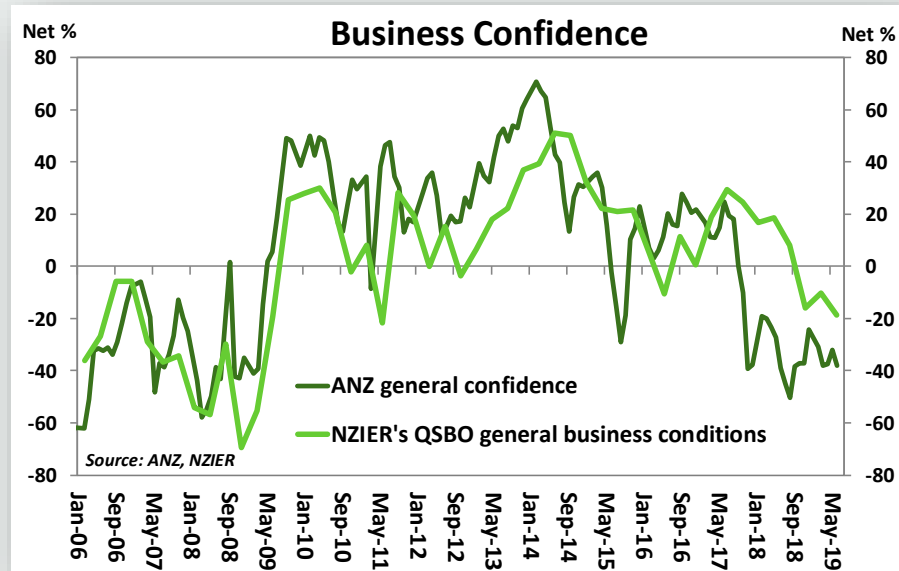
Market traders always look to the next move, and the next.



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:

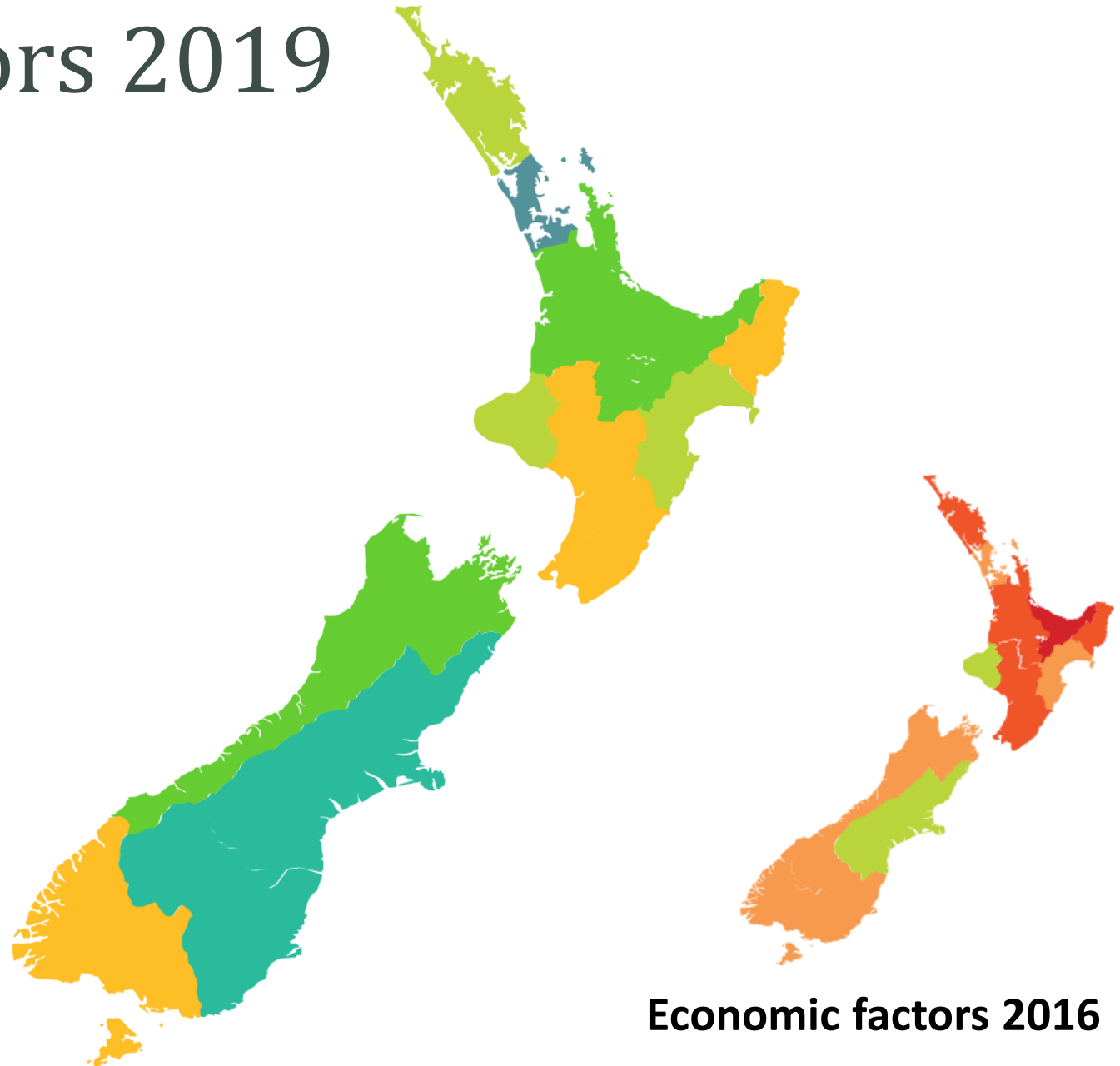
- Abolition of CGT, and nothing unheard-of in the tax group.
- Lower interest rates.



# Taking the pulse of the regions

Regions cool but  
it's not all bad

# Economic factors 2019

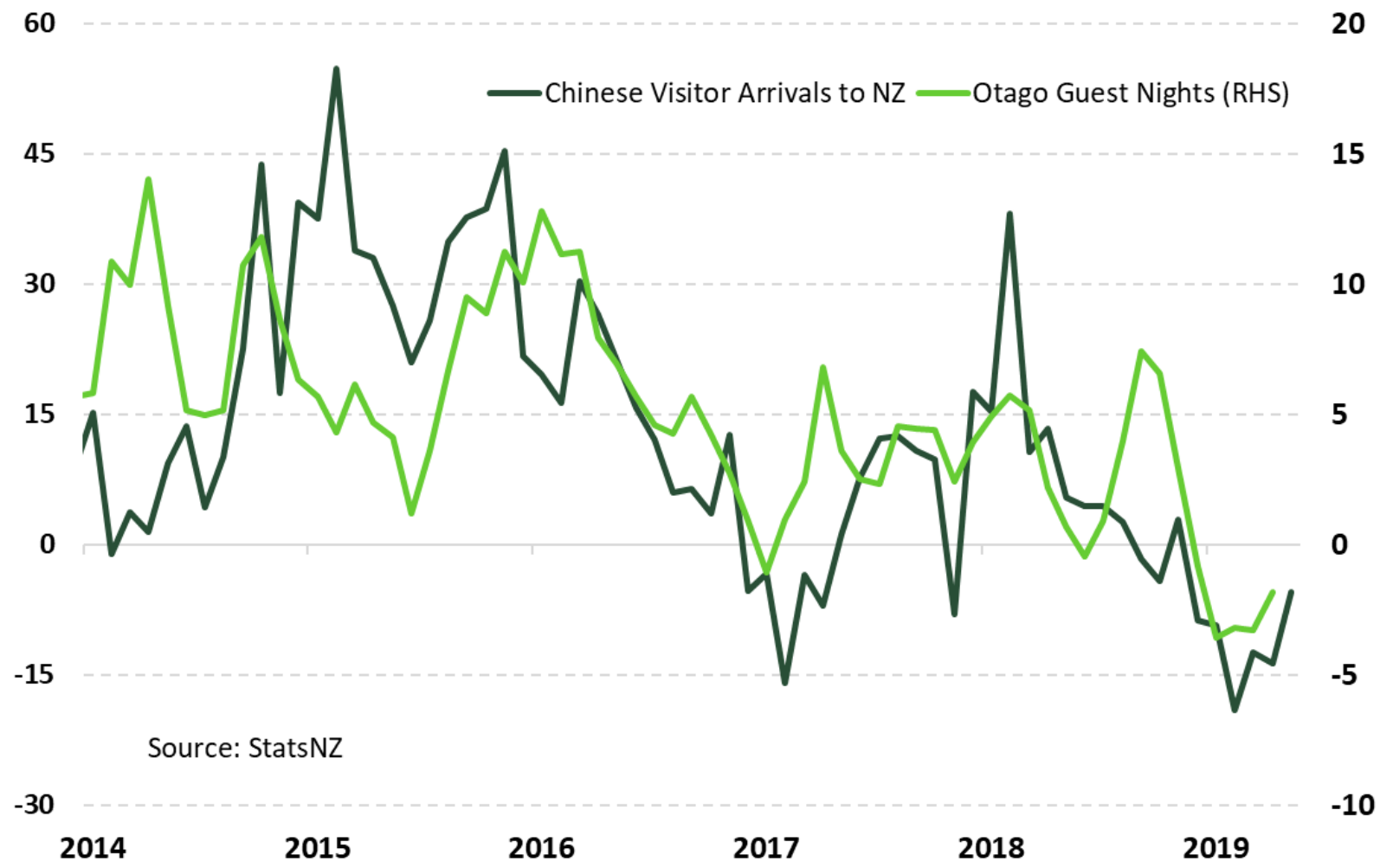


Economic factors 2016

# Tourism is directly exposed to slowdown in global growth



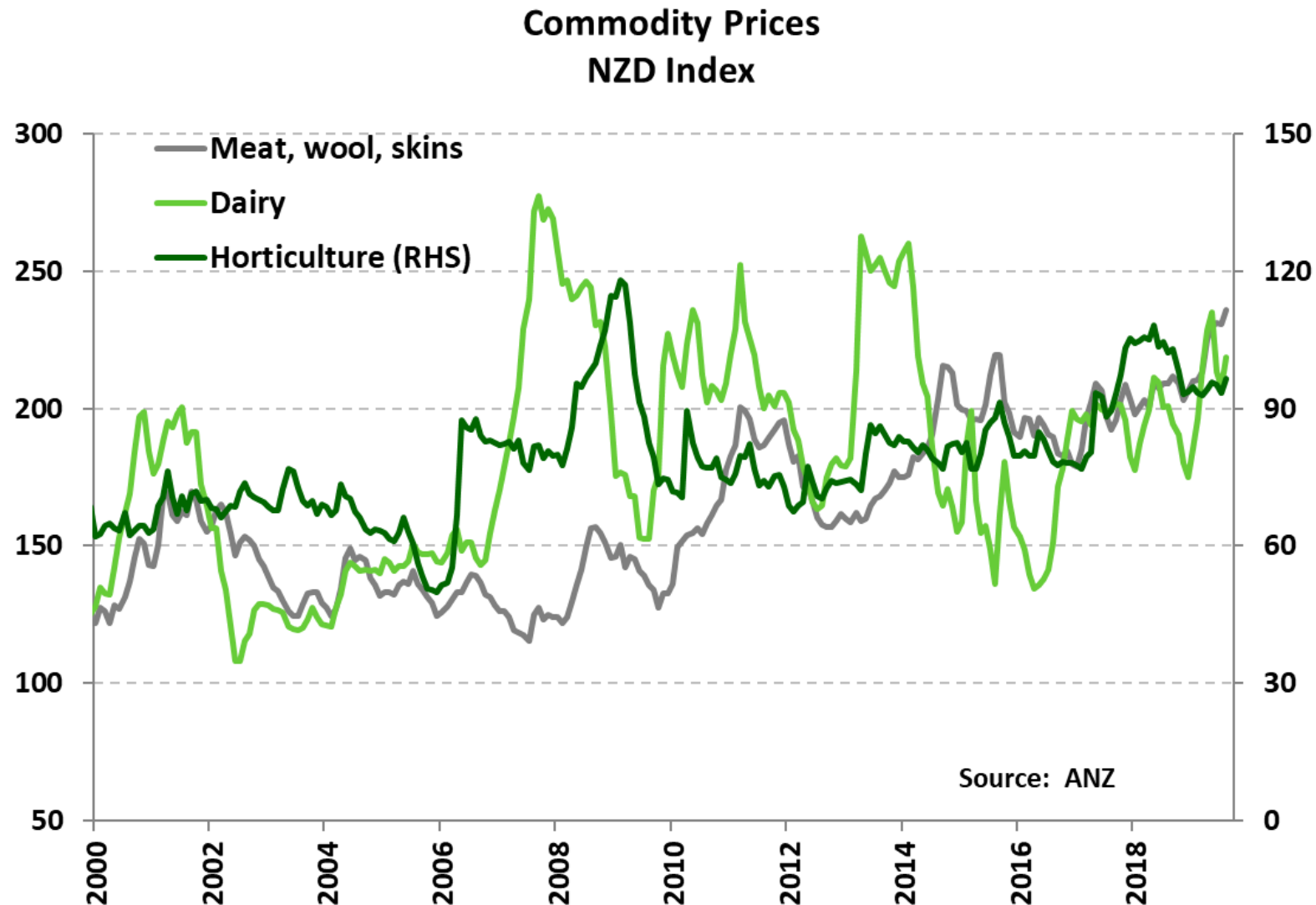
A slowdown in Chinese visitors hits NZ's tourist hot spots  
(% YoY - 3 month moving average)



Source: StatsNZ



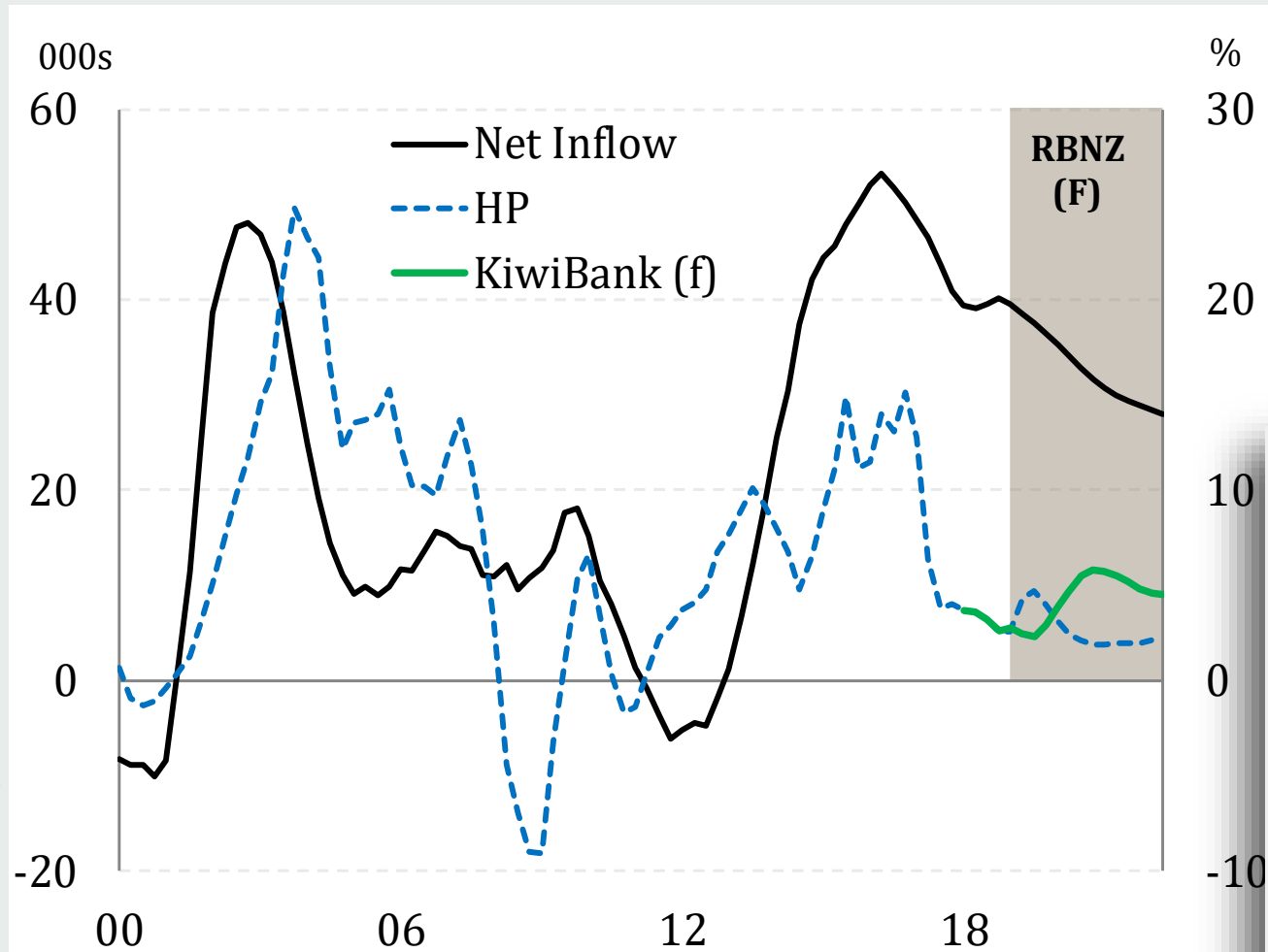
# Agriculture is protected by commodity prices for now



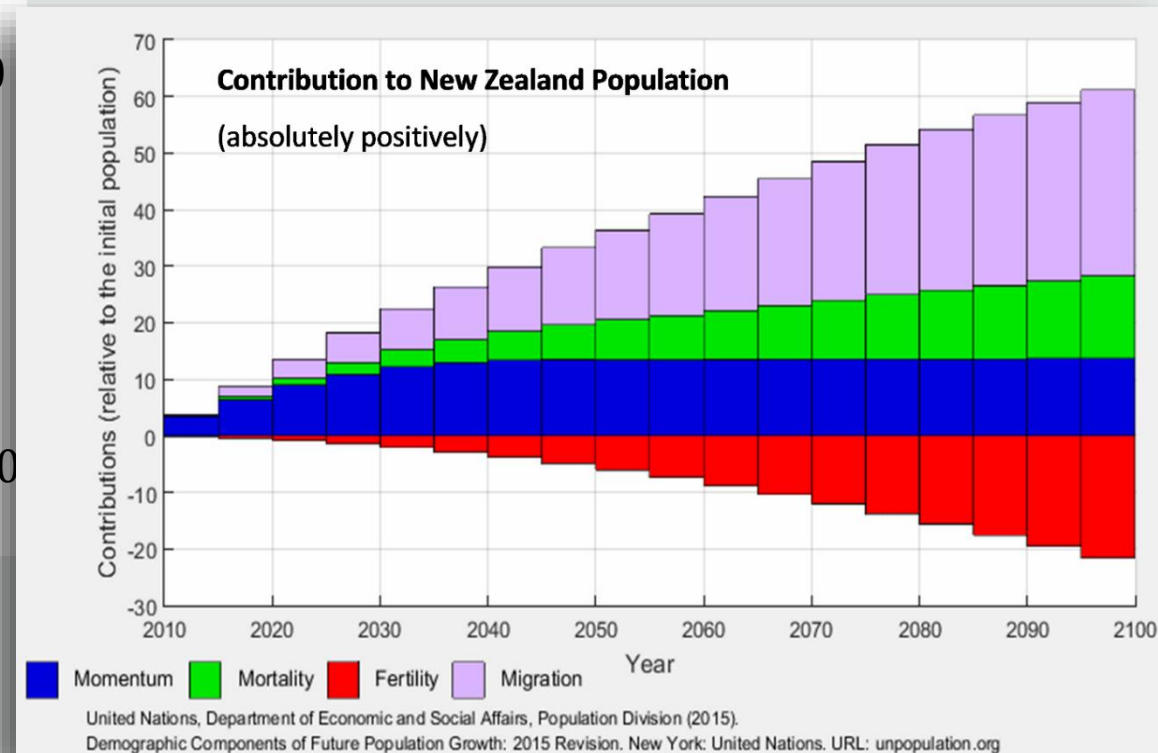
# There are 3 Ps to Property:

1. Population
2. Preference
3. Policy

# #1 Population: a mammoth migration boom...



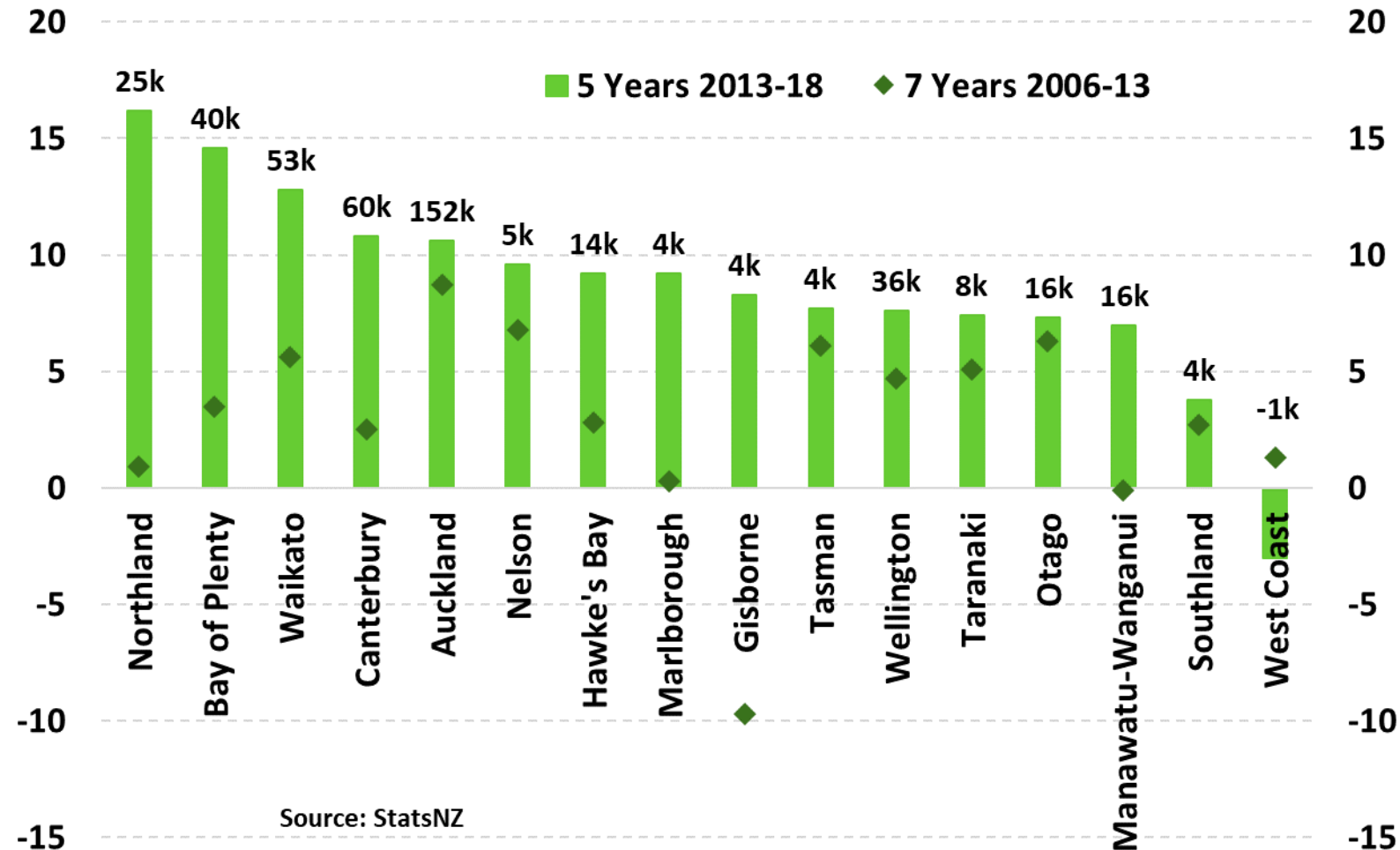
Our population estimates  
**do not peak**, in our  
lifetimes.



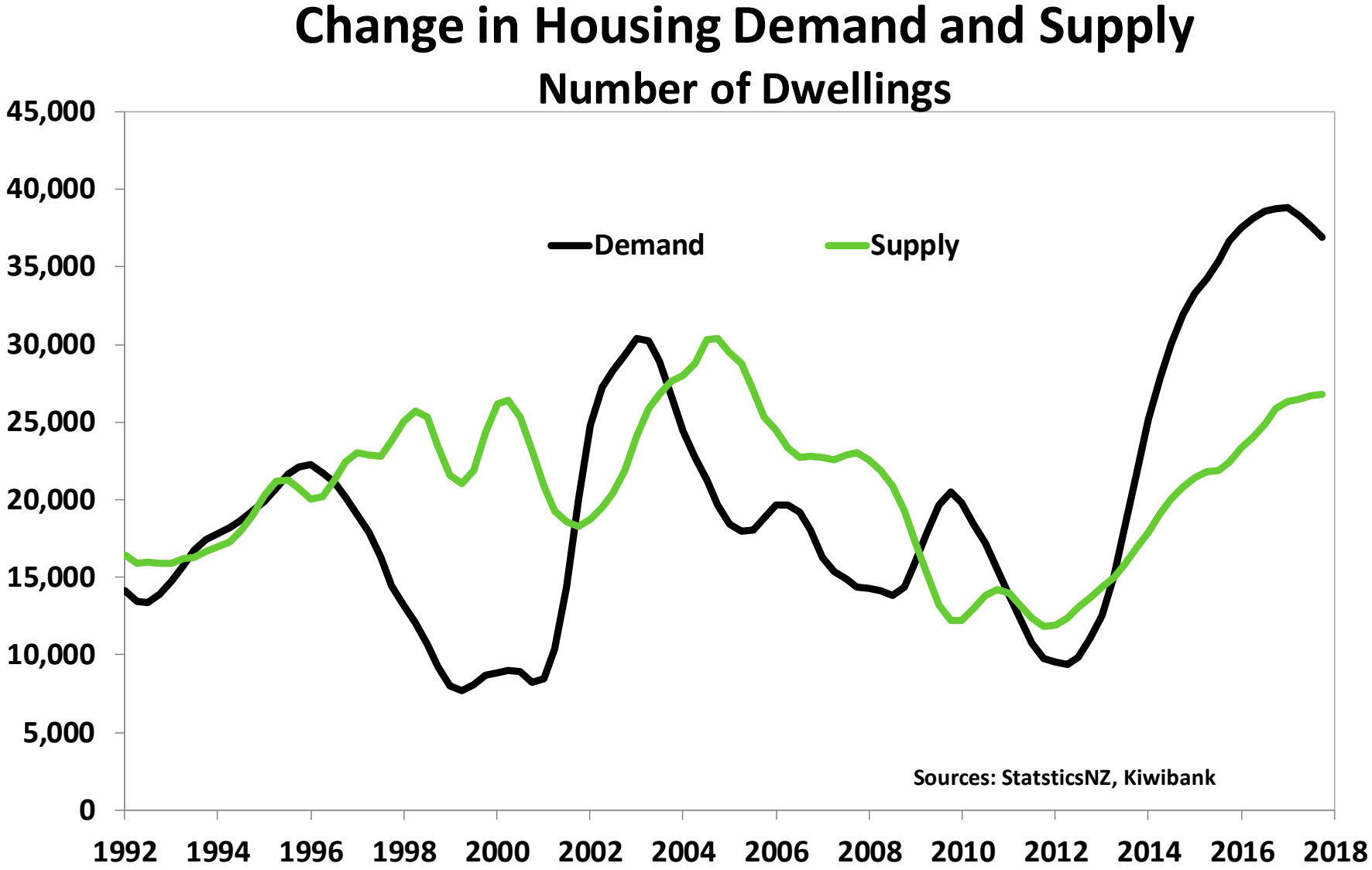


# ...concentrated in the north, but a boost everywhere!

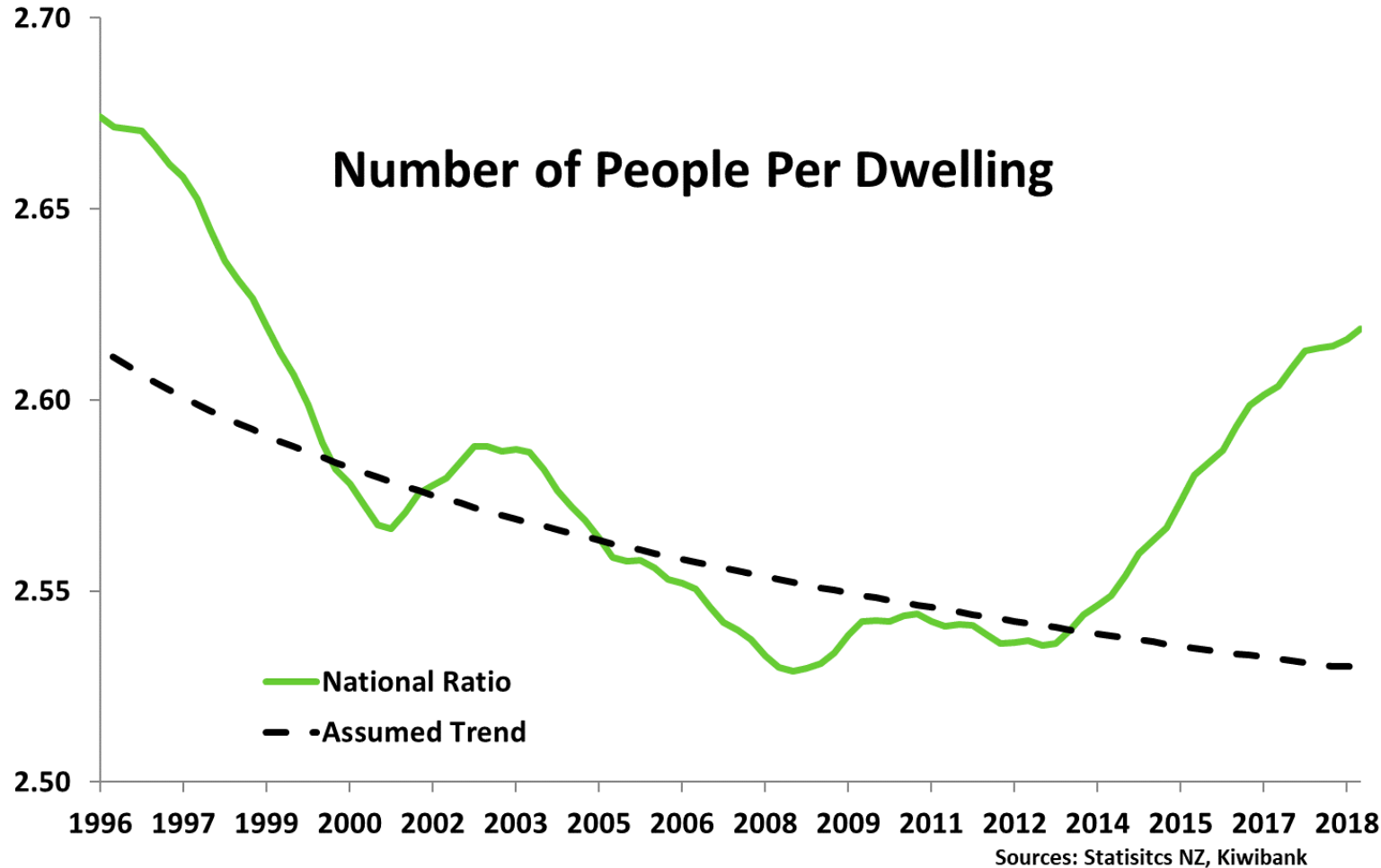
Just how much have regions grown?  
Population growth % change



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



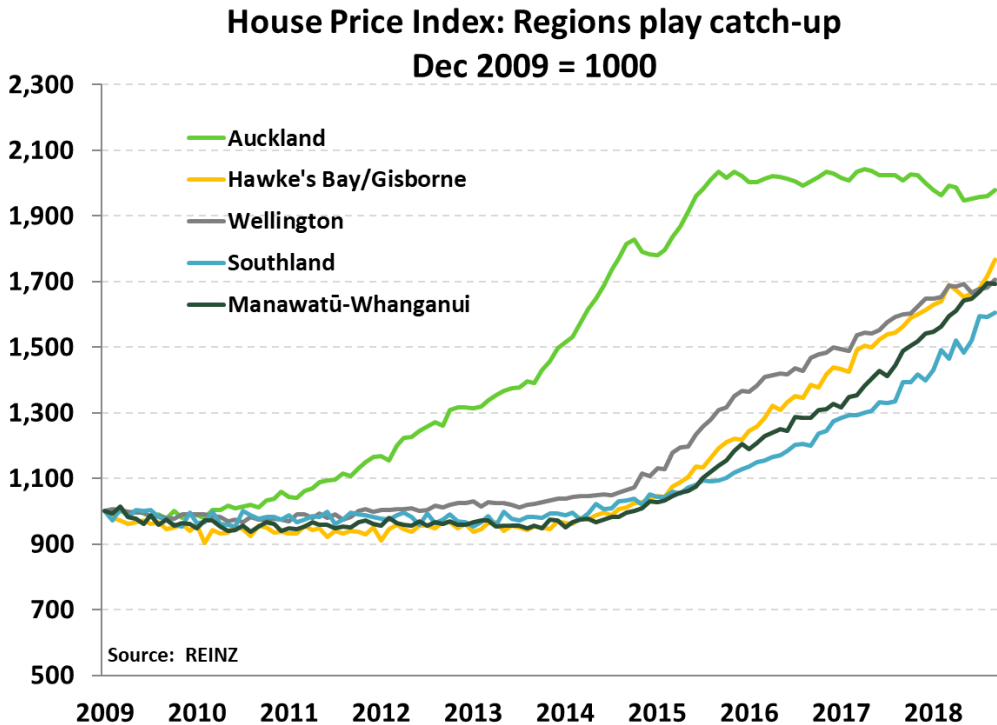
# We are short 130,000 homes!



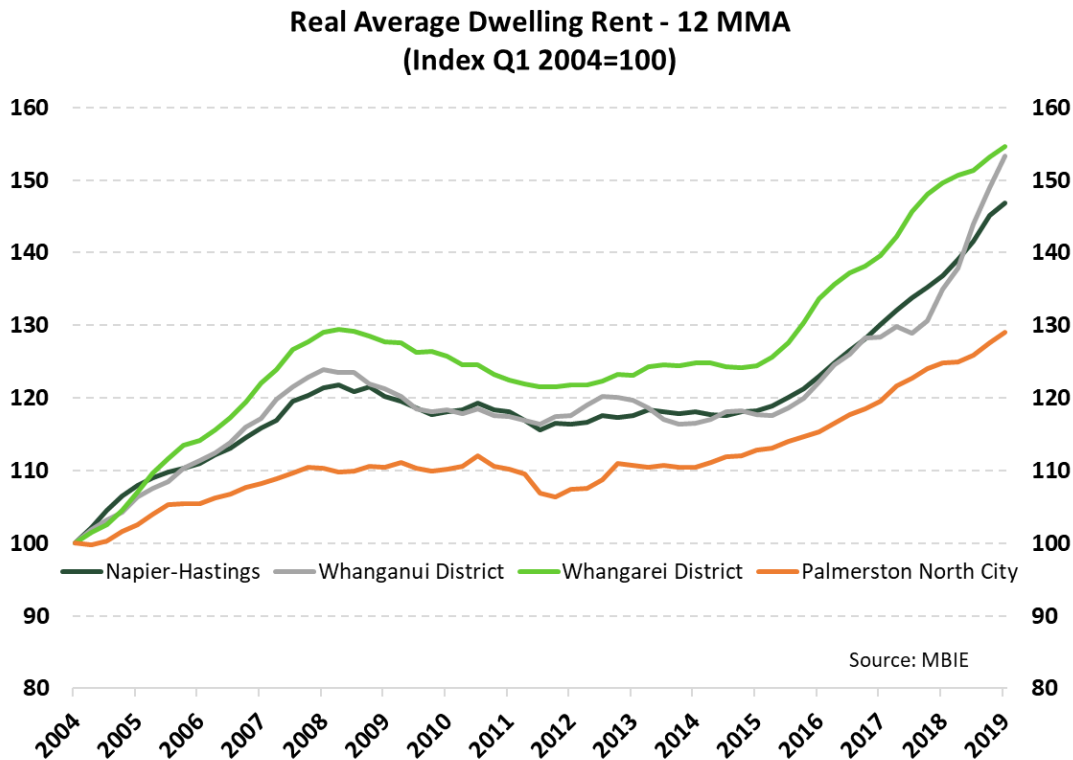
**The recent spike in people per dwelling confirms undersupply.**

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

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

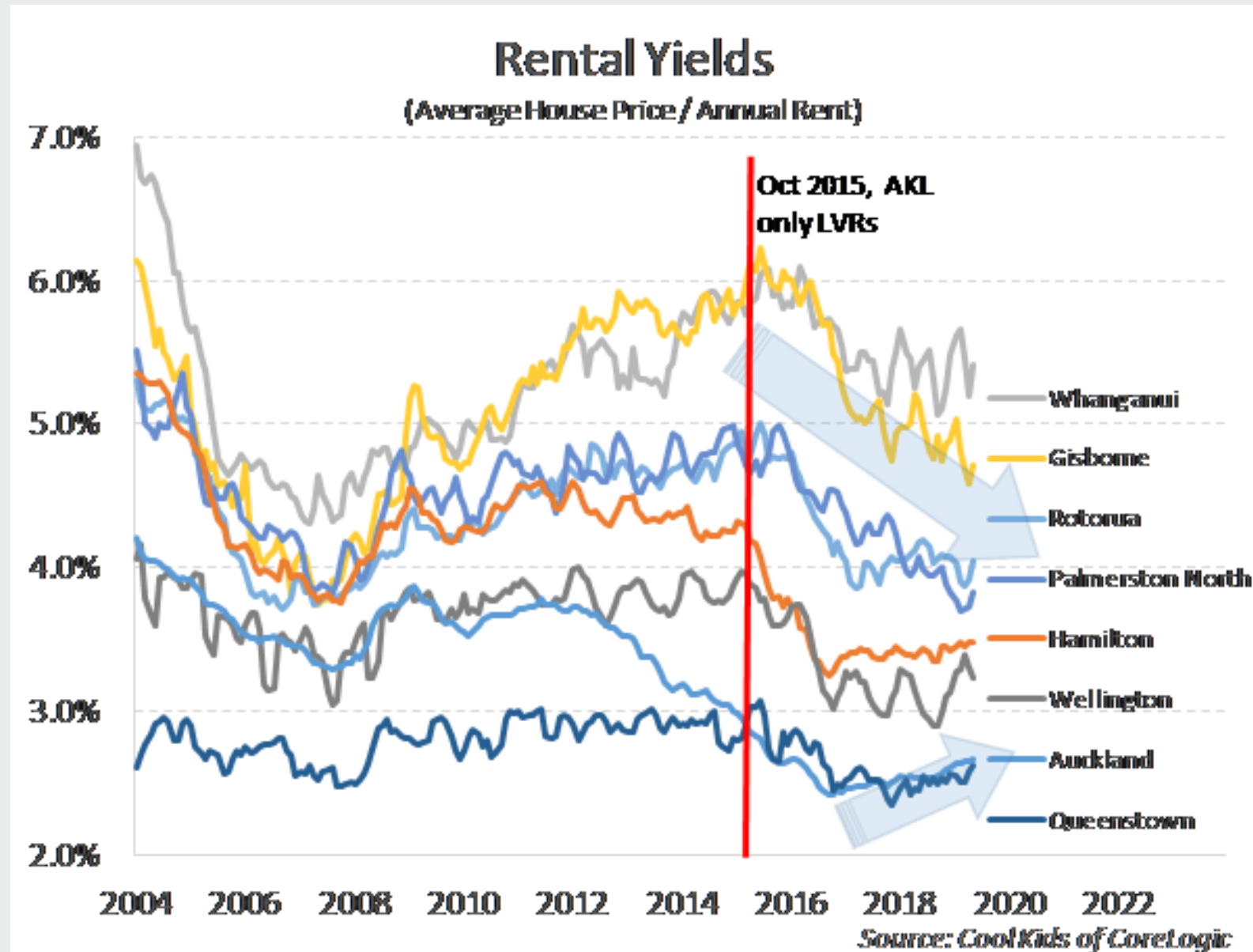


But not just investor led,  
Population is playing a role too!

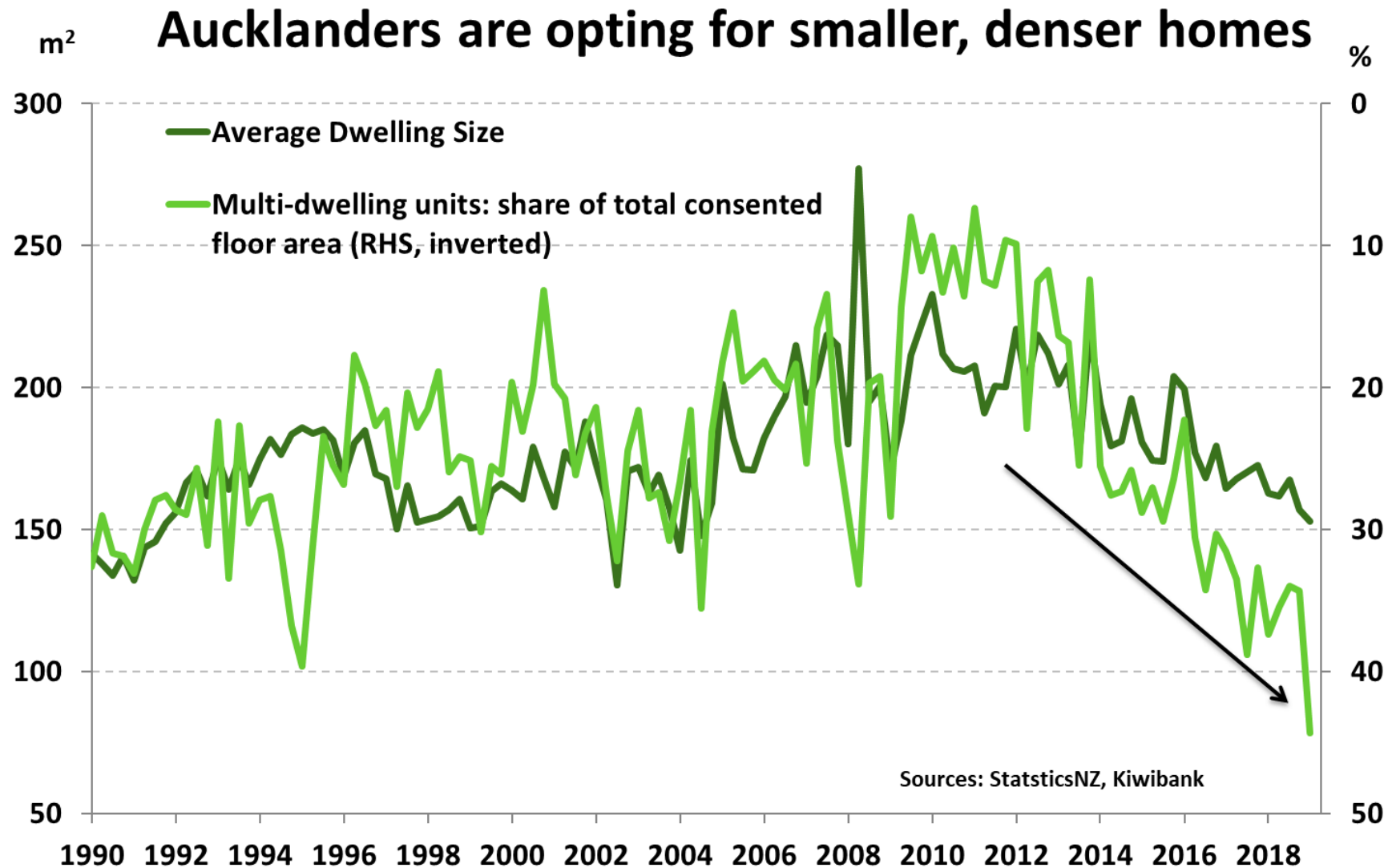




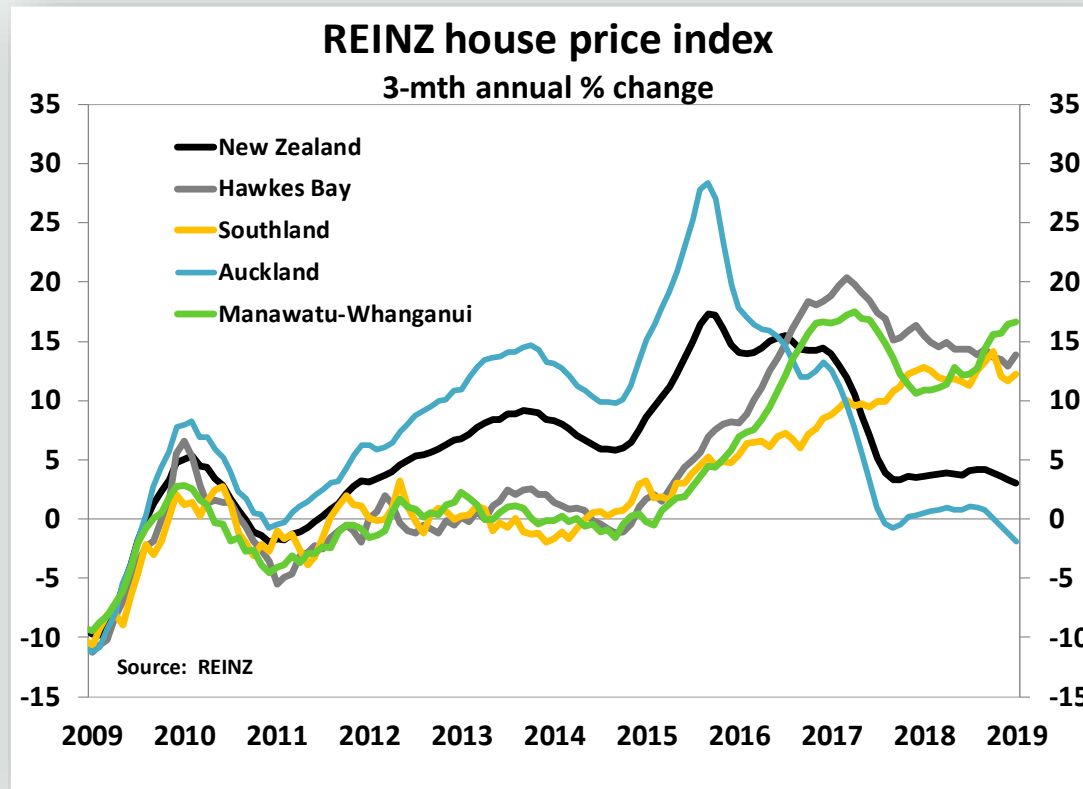
# The hunt for yield.....has led Aucklanders to the regions.



## #2 Preference: is now higher density (globally)



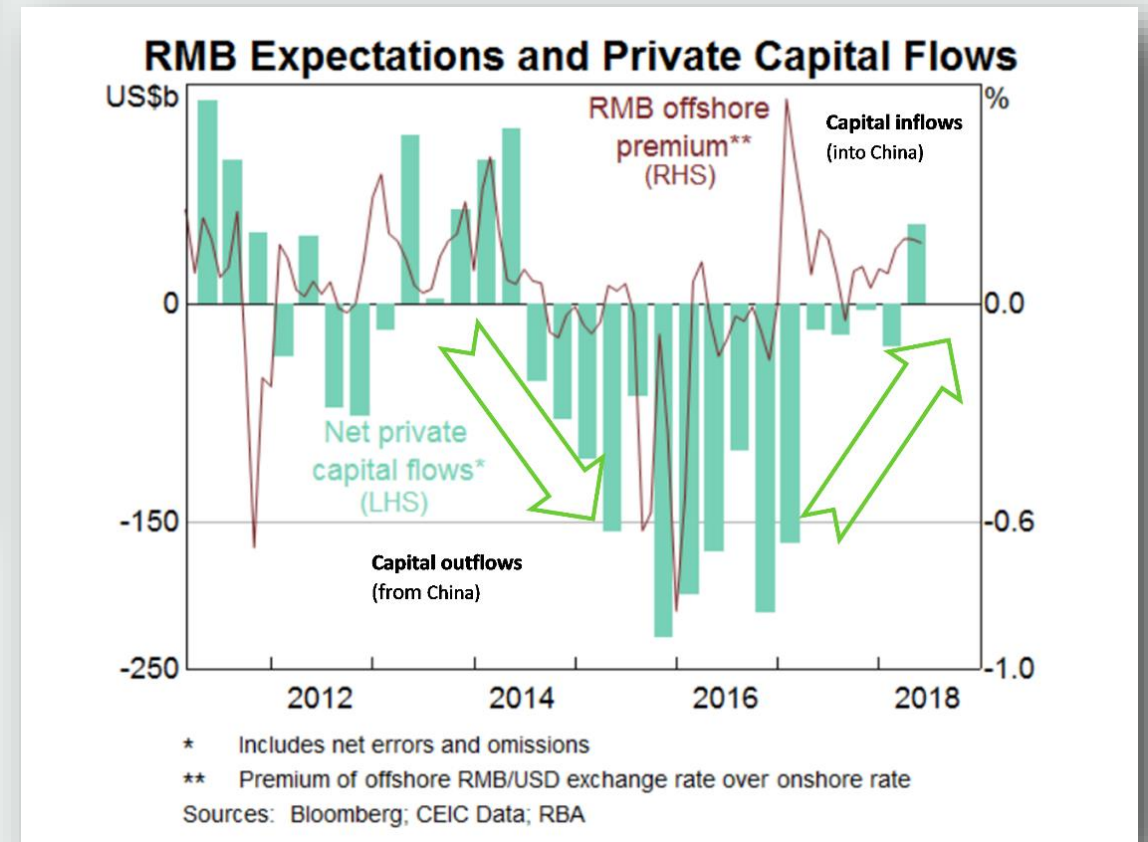
# Auckland and Queenstown benefited from foreign buying.



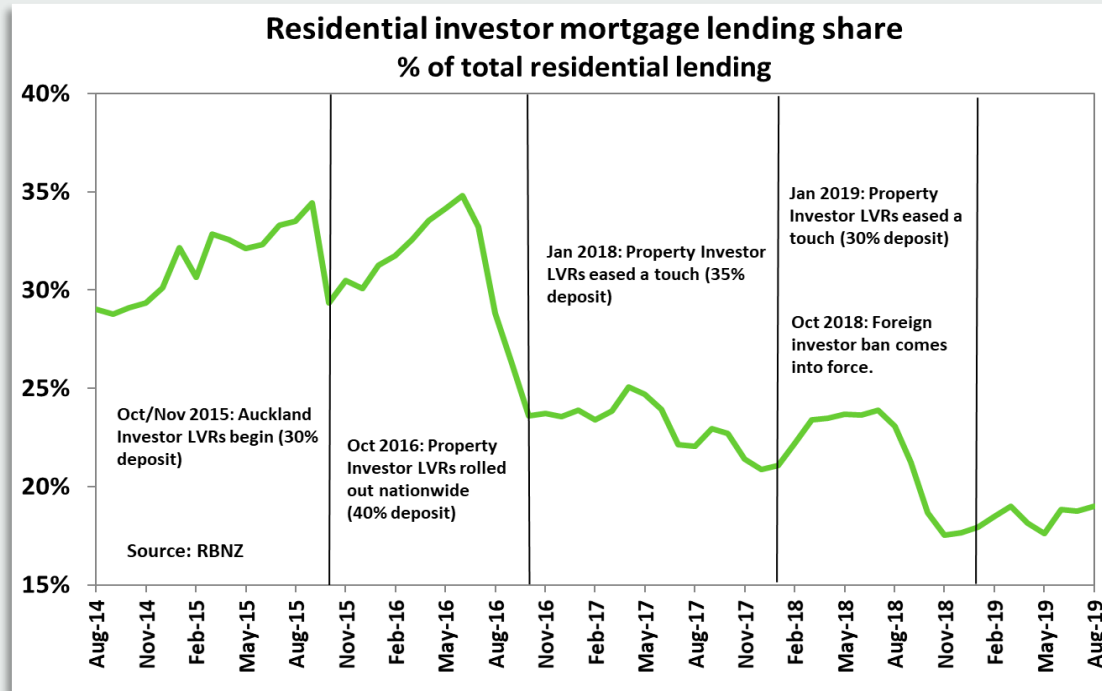
Chinese buying had a large impact on Auckland, as well as Sydney, Melbourne, Vancouver, Singapore and London.

## English Property Rights

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



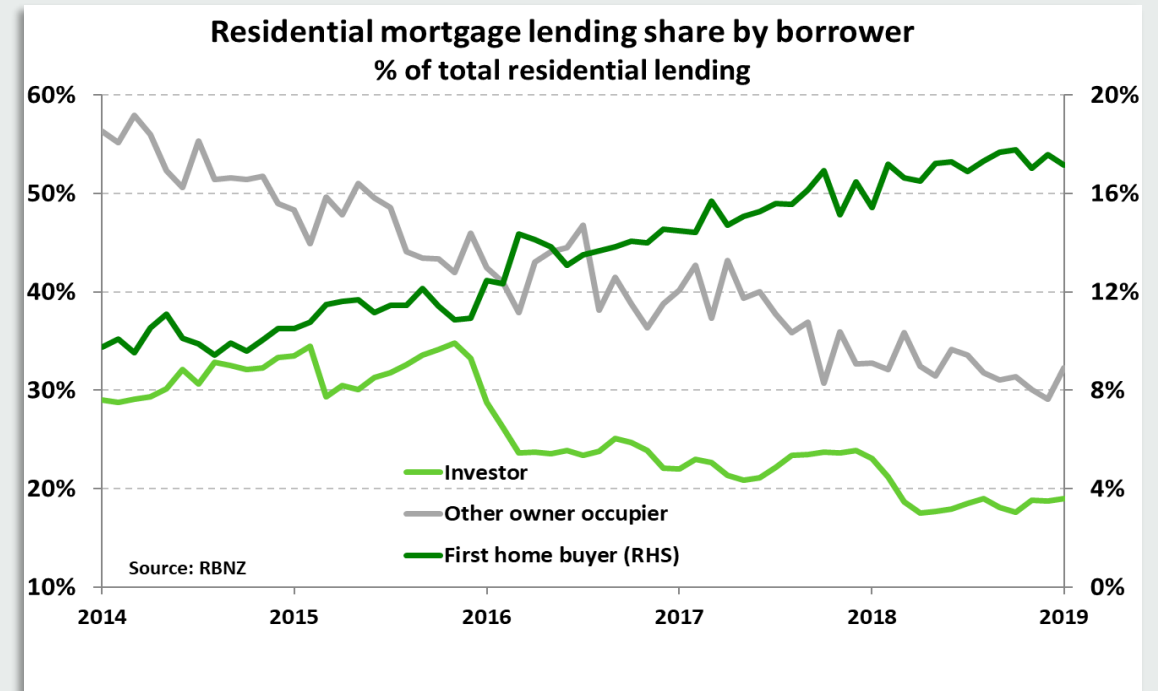
# #3 Policy: Macropolicy restrained investors



First home buyers have increased as a percentage of total.

*“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.



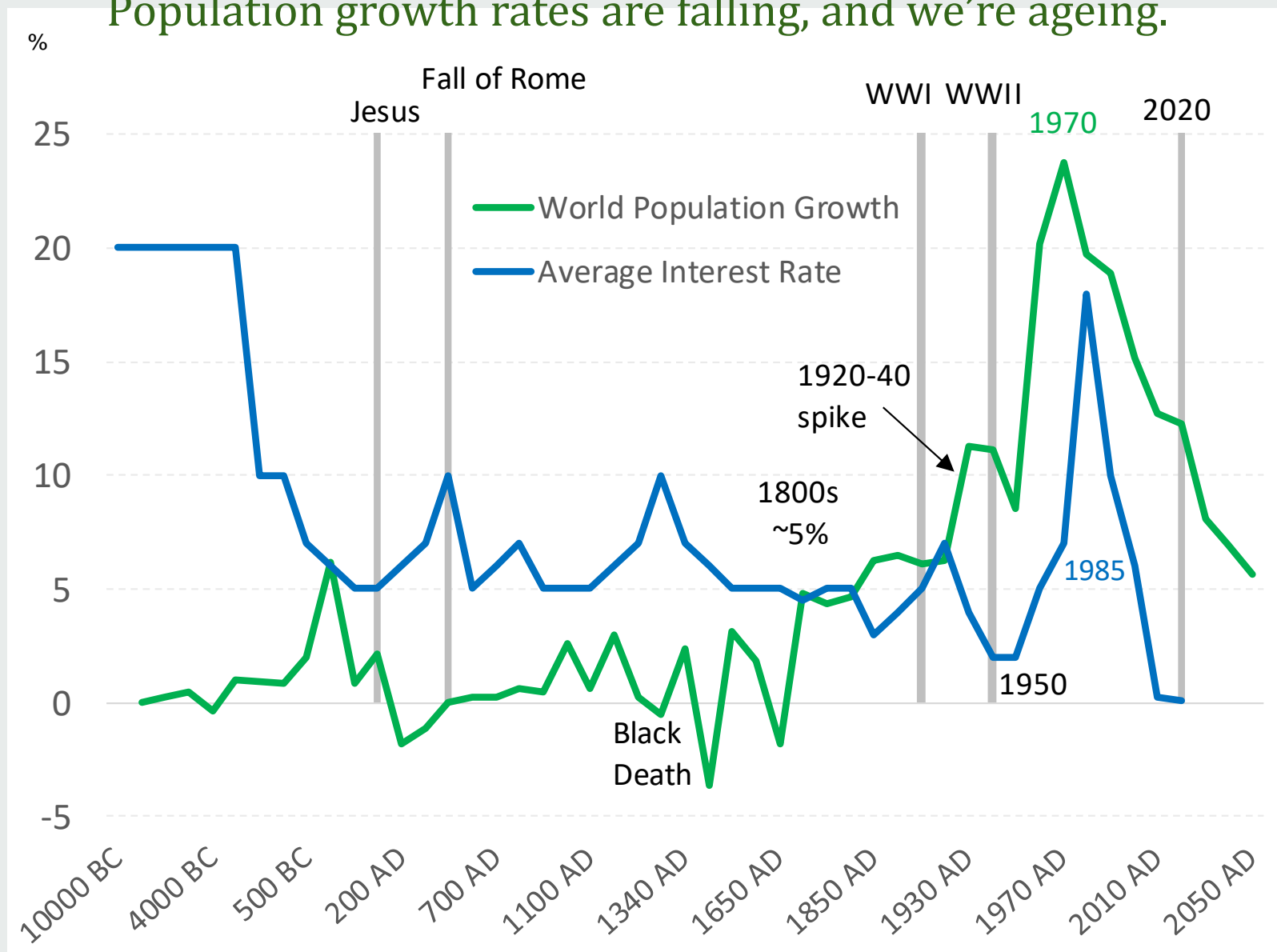
# Are there any questions





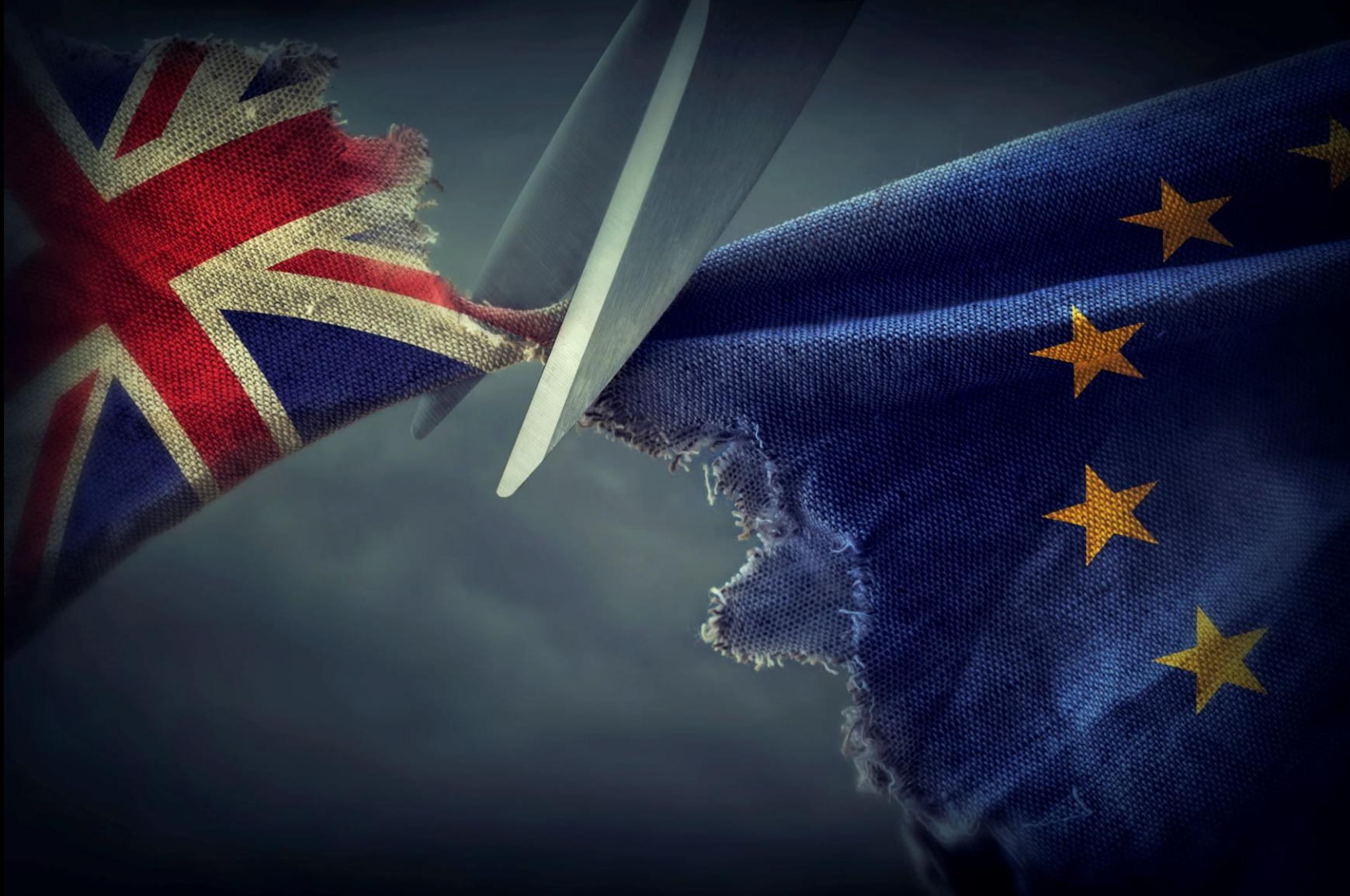
# The tectonic shift in demographics

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



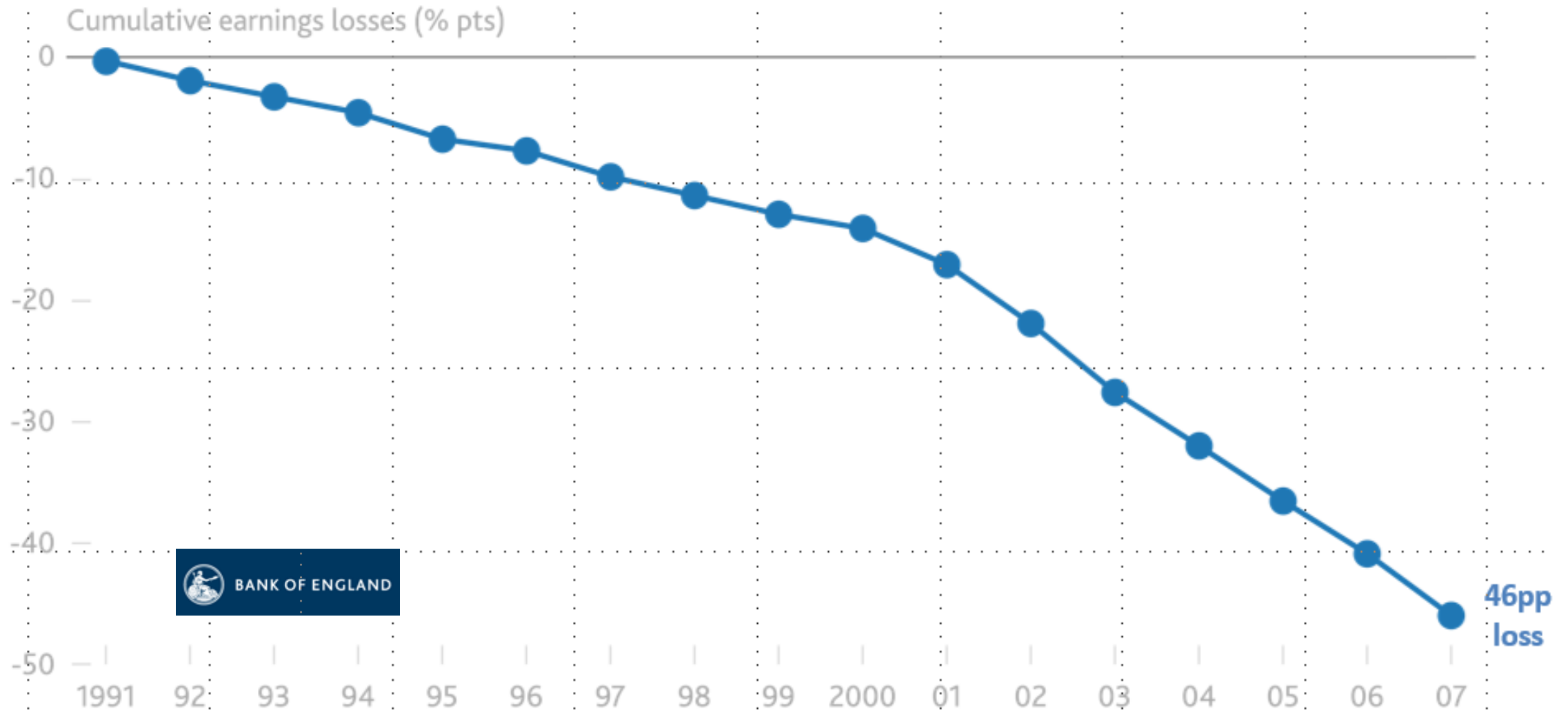
# Brexit Breaking Bad...

**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...

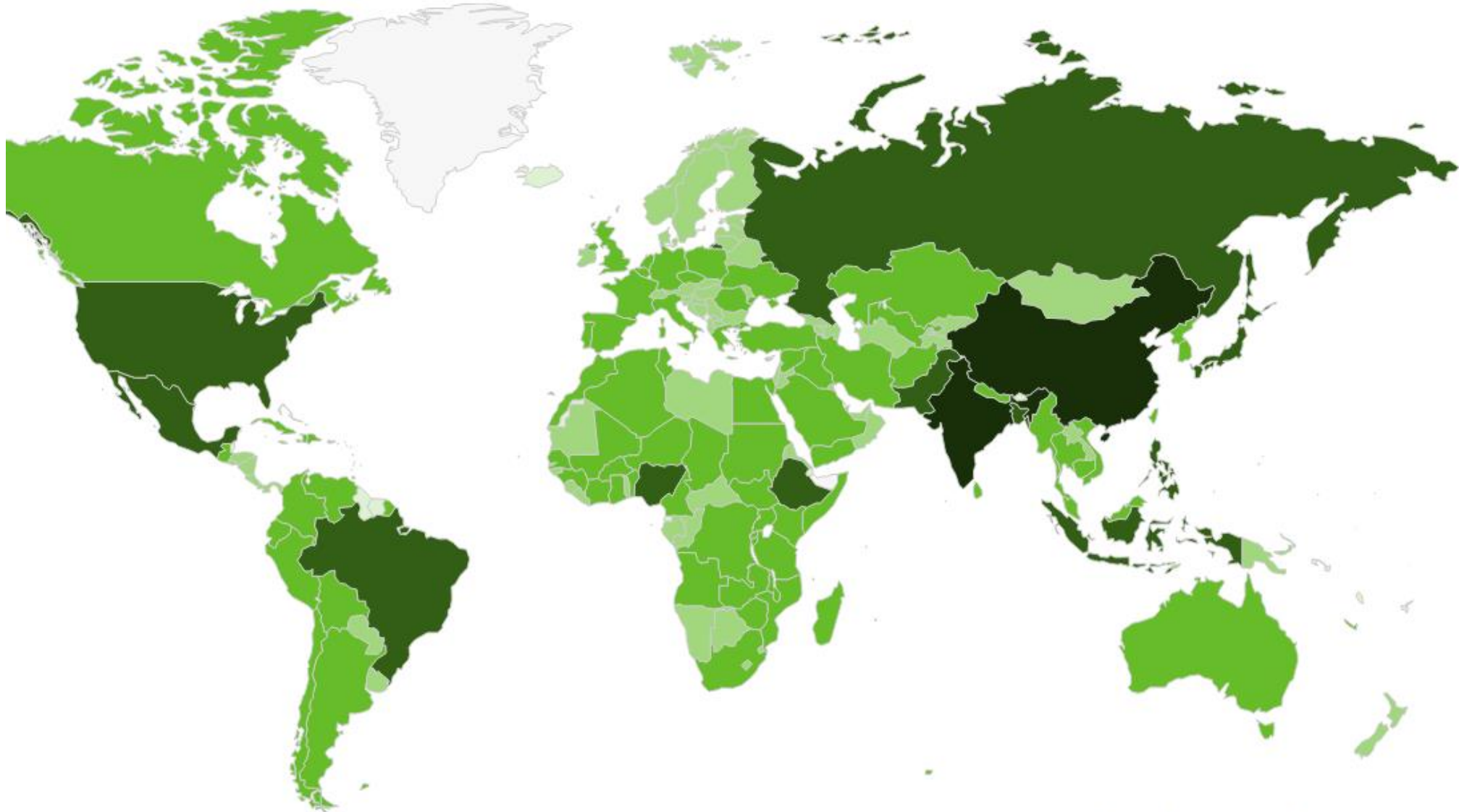
The US-China trade deal should be signed, but is only the start.



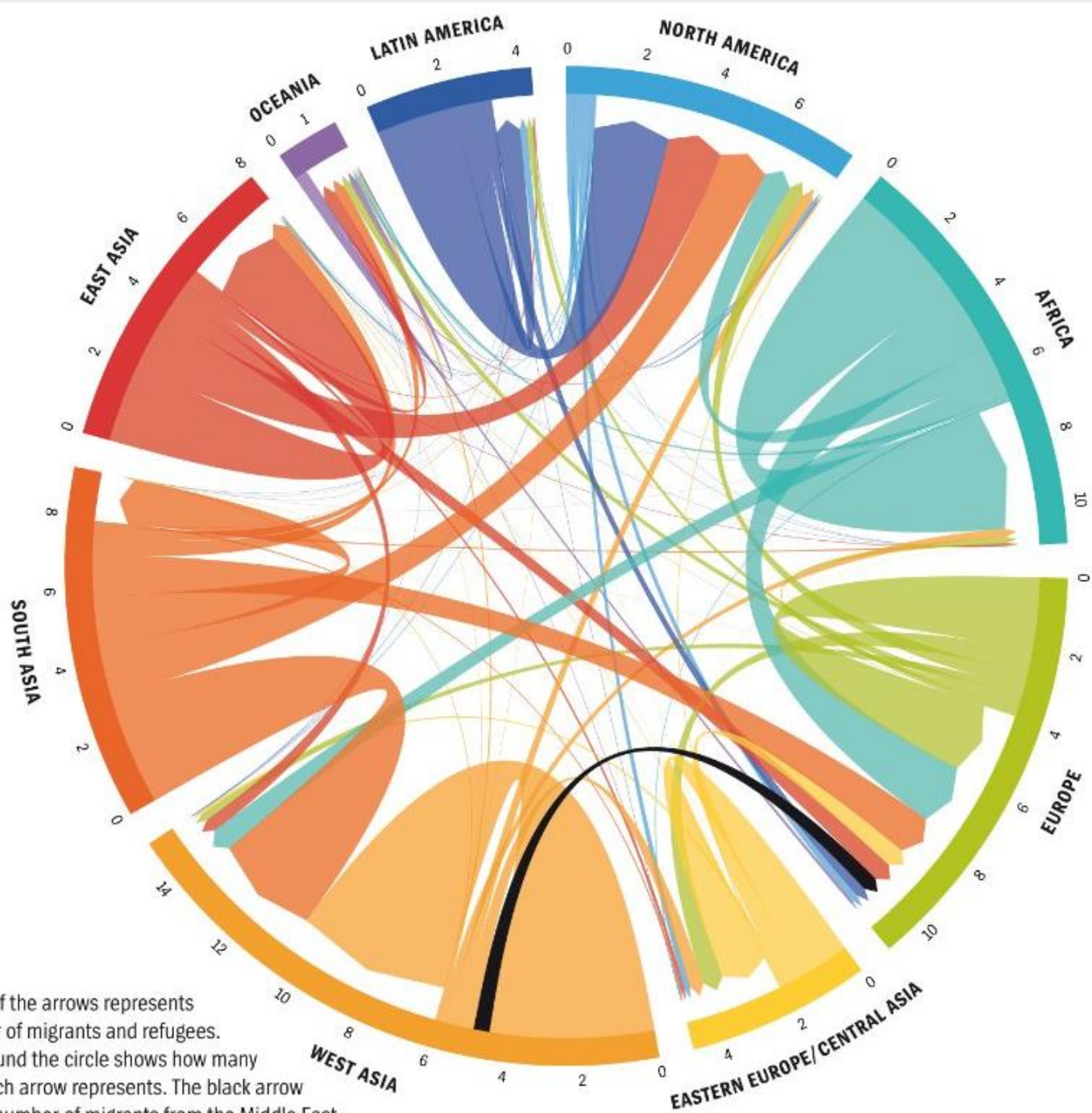


# We are geographically closer to the action.

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



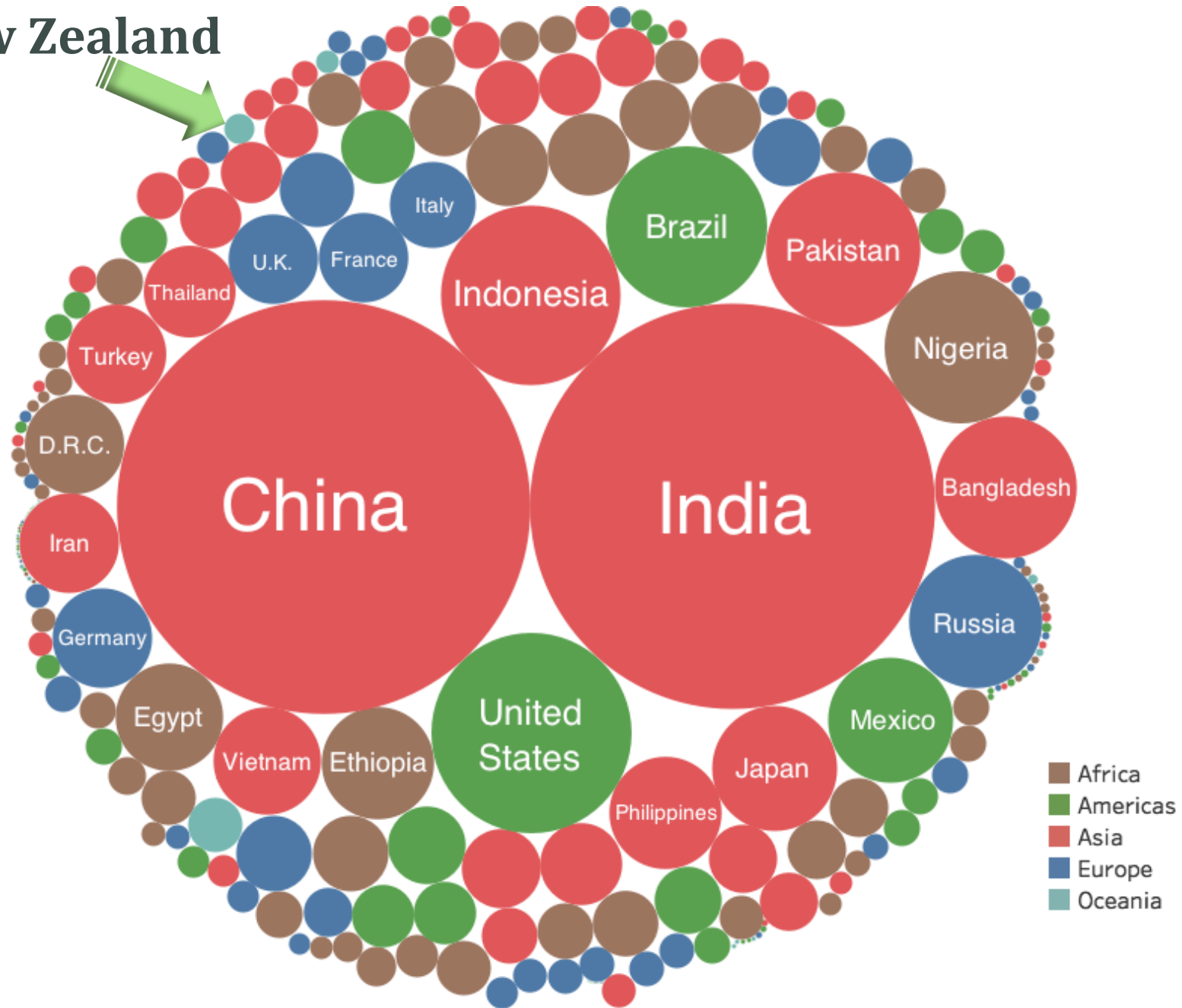




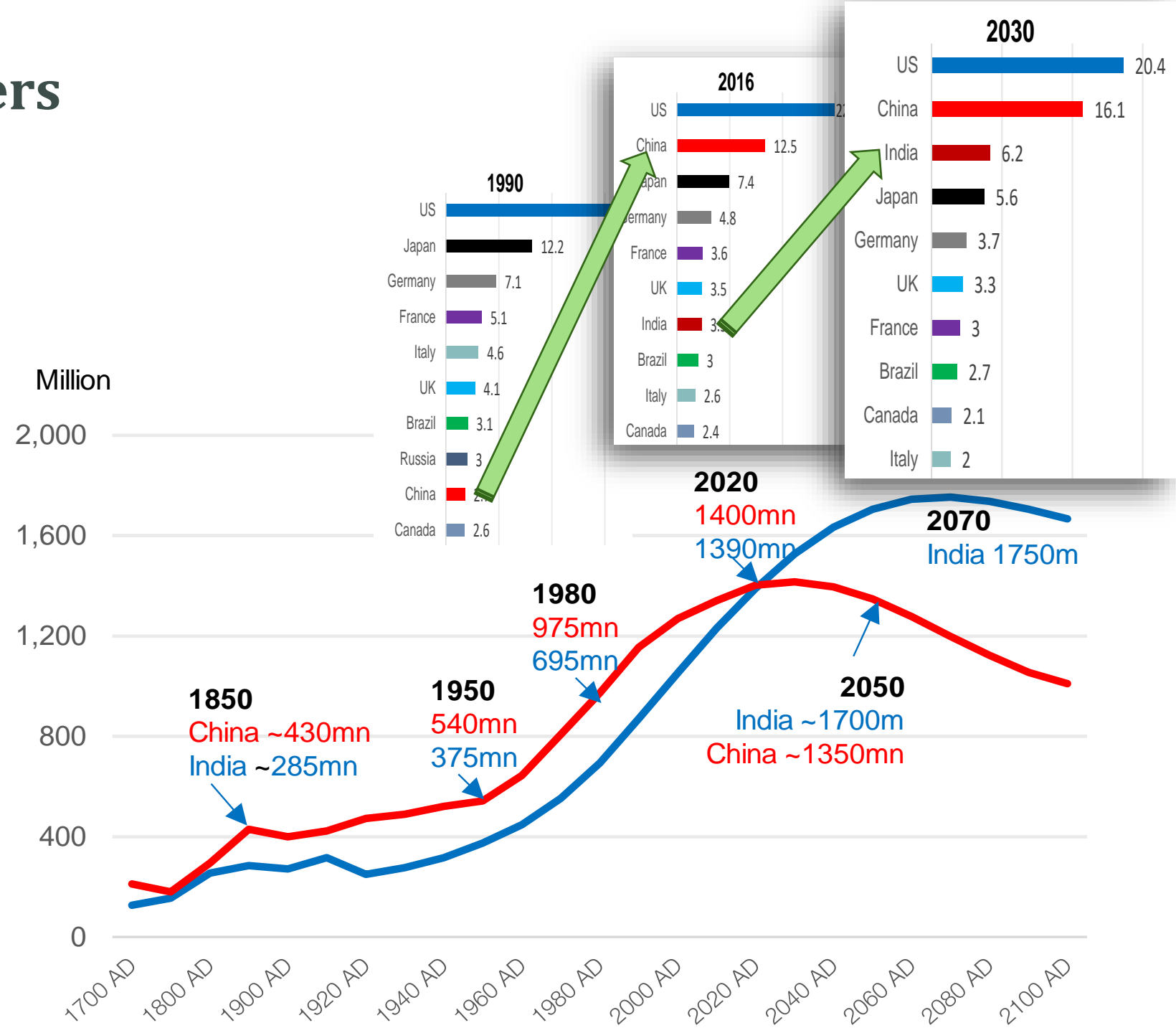
*“Migration paths do not lead primarily from very poor to very rich countries, but rather adhere to a graduated model. People move to countries where the economy is somewhat stronger than in their native country... from Bangladesh to India or from Zimbabwe to South Africa.”*

- 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

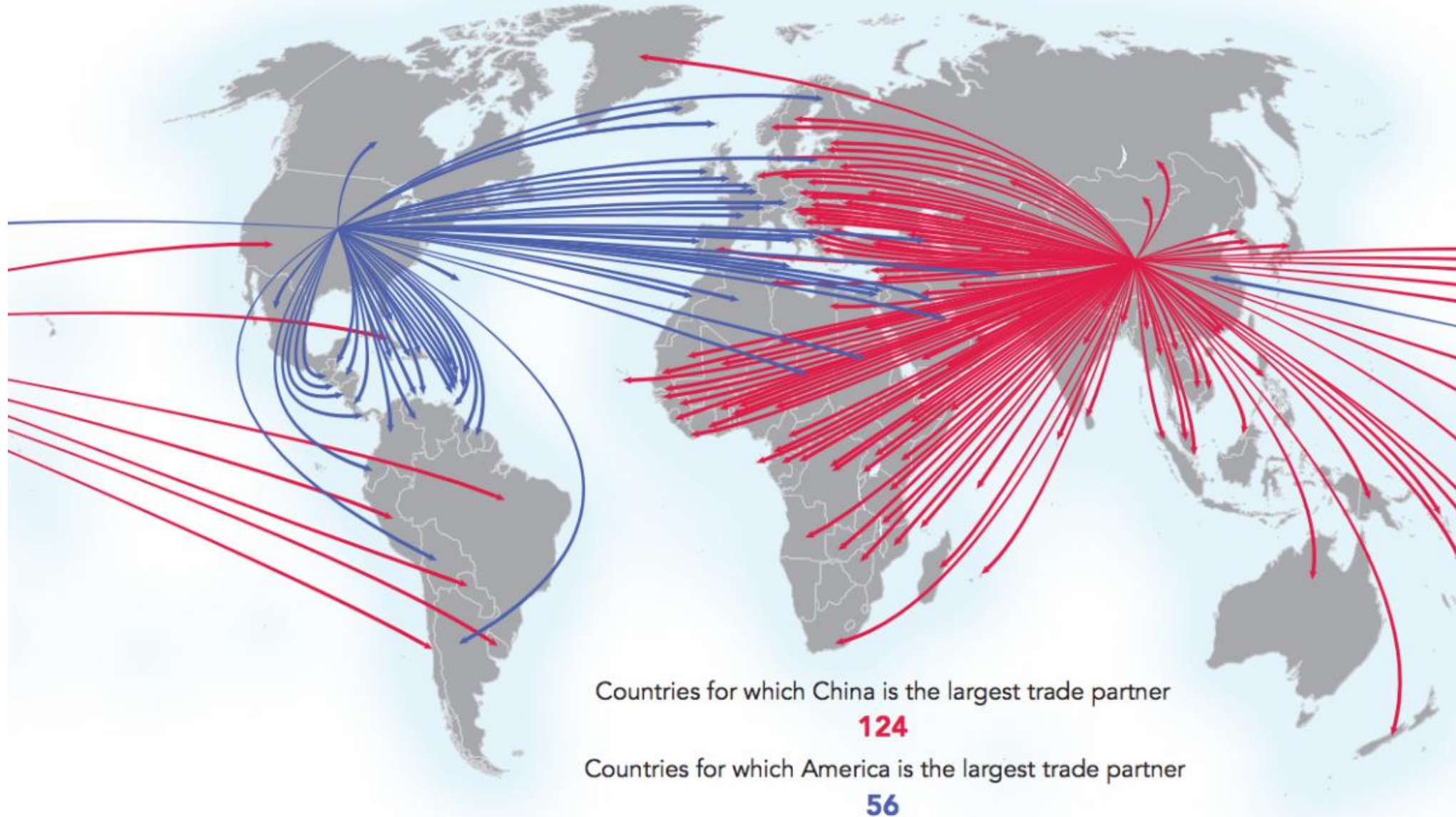


# Rising powers





# China is the world's largest trading partner.

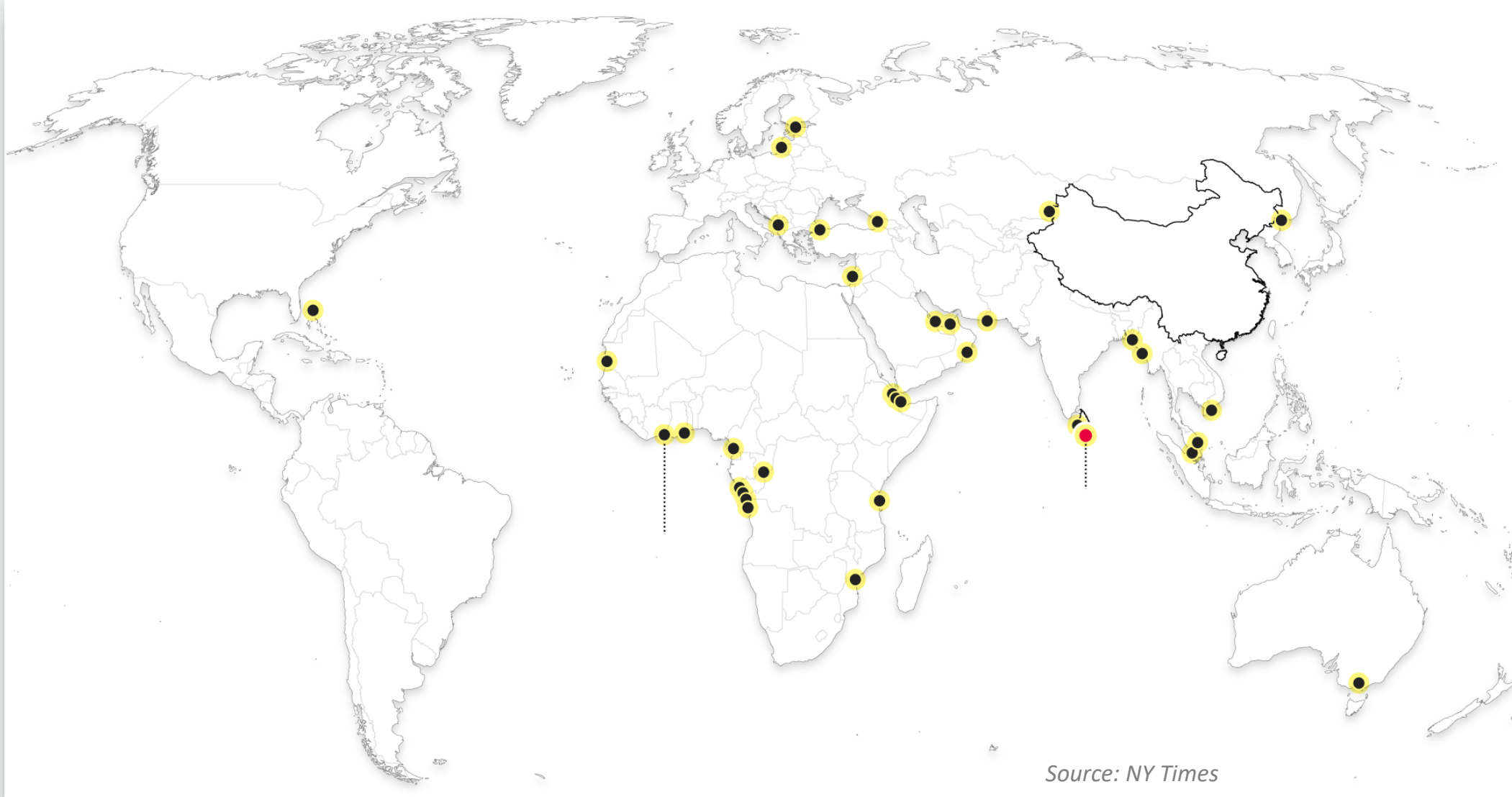


# China's new silk road and belt initiative is BIG.



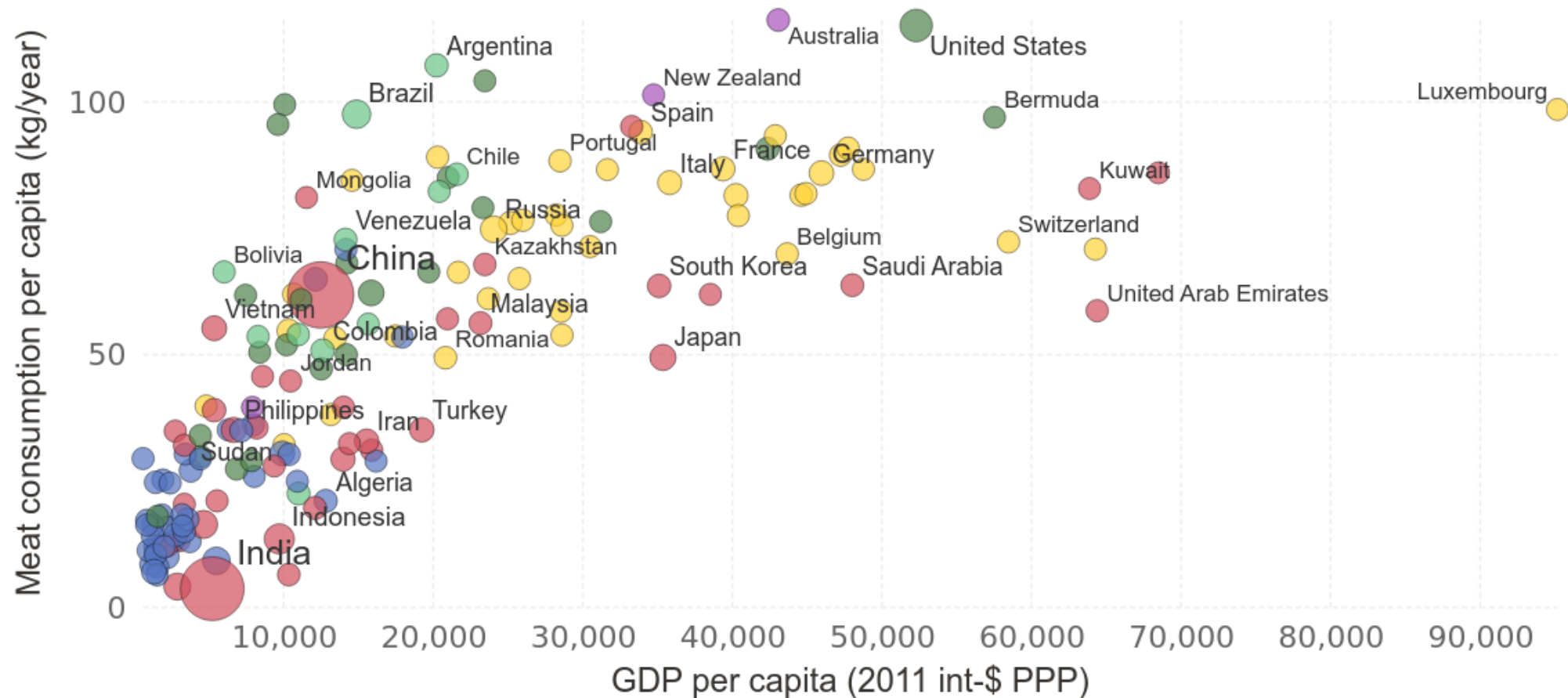


# 35 strategic Chinese-funded ports, will test the US.



# Protein consumption and wealth increase together.

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



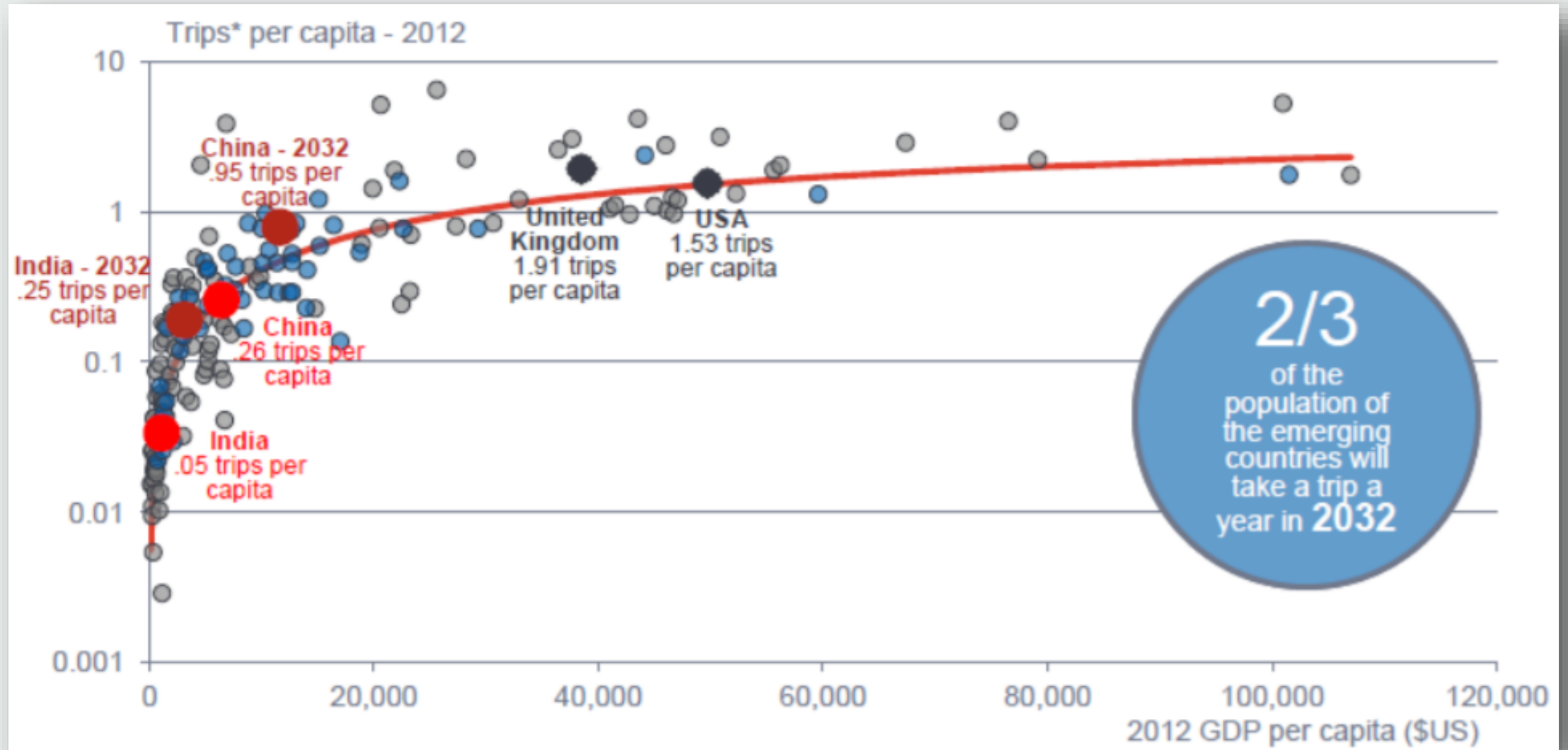
Data source: [FAOstat](#); [Penn World Table 9.0](#)

[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...

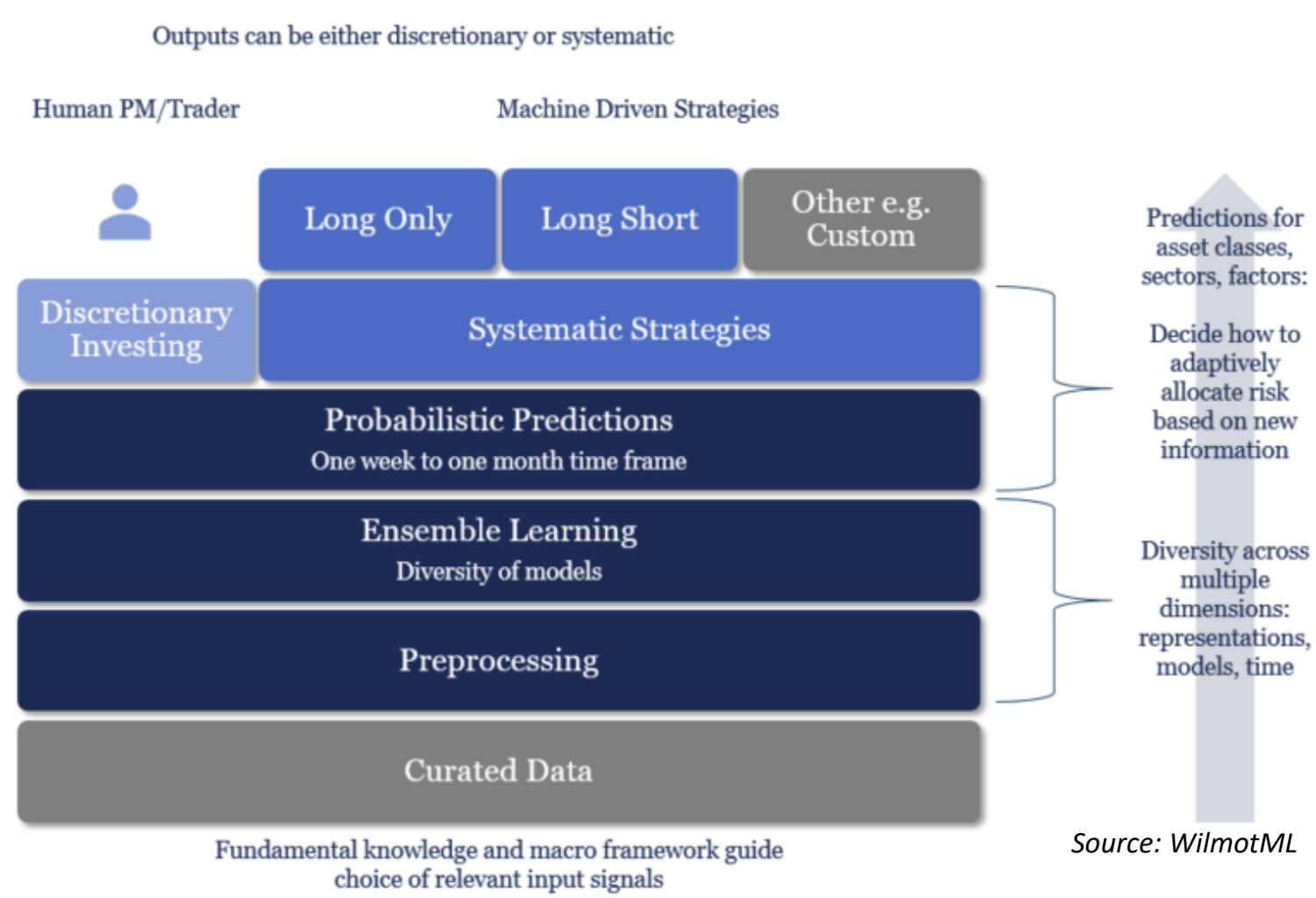
“A few providers are responsible for the majority of referral traffic, and just 5 companies take in almost 80% of global mobile advertising revenue – with Google and Facebook getting 90% of the growth”.

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

# Financial markets have used machines for years.



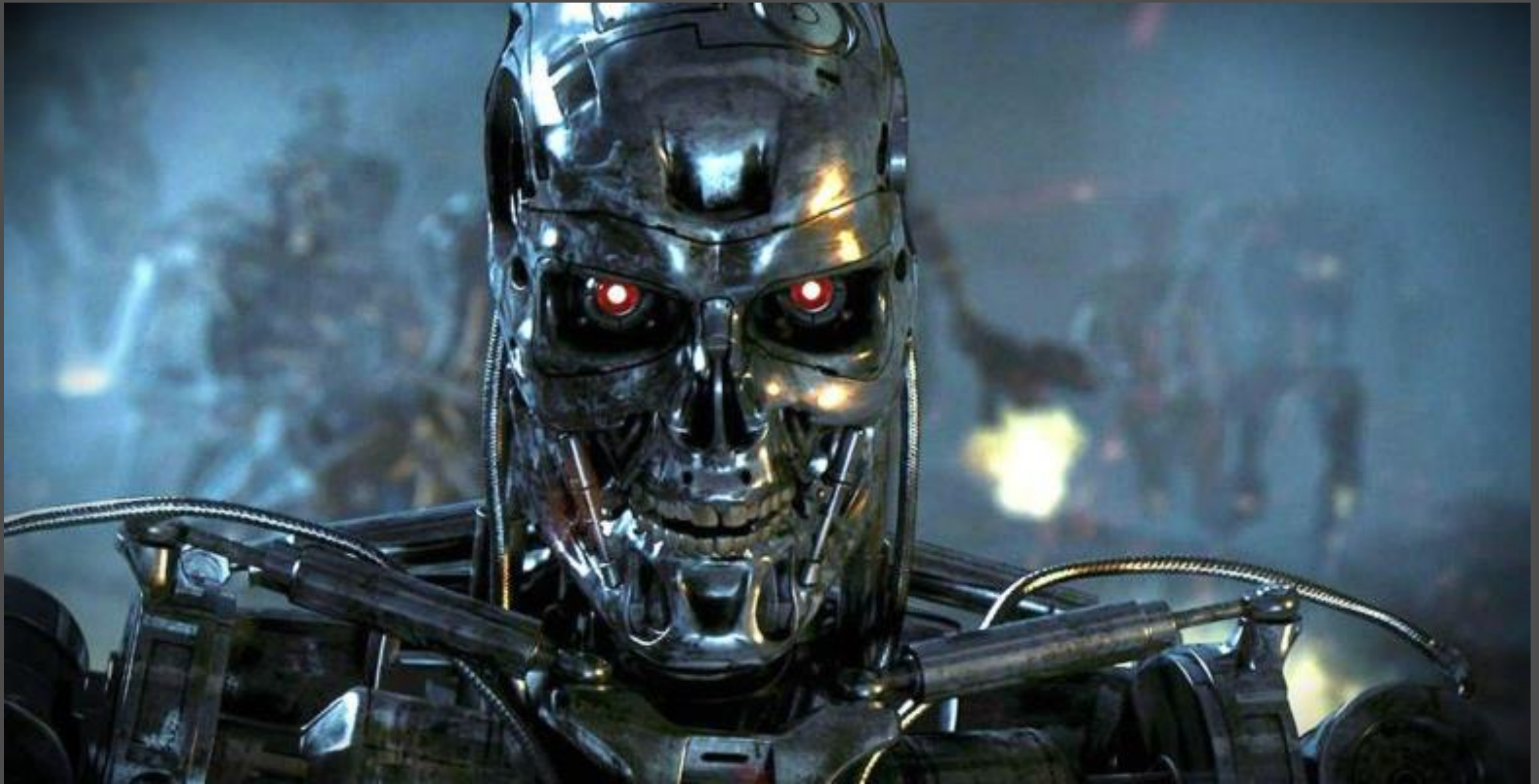
## GAIA: The Global AI Allocator





# What could possibly go wrong?

Kiwi  
bank.





# Thank you.....and here's our disclaimer!

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