

It's  
Ours.

**Kiwi  
bank.**

# Fiscally sound and seeking growth

...we need more infrastructure



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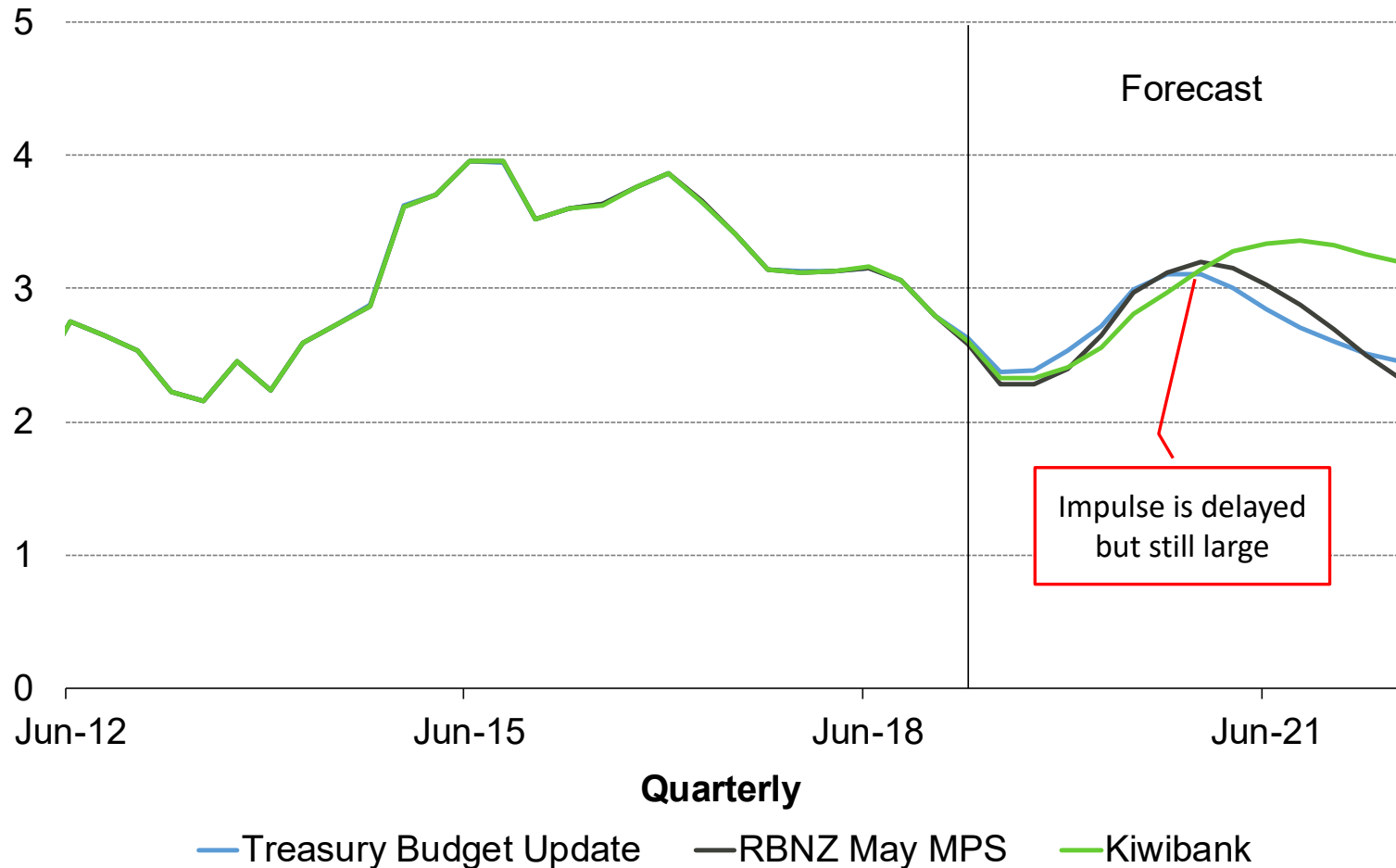


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# We are growing well, with a boost to come.

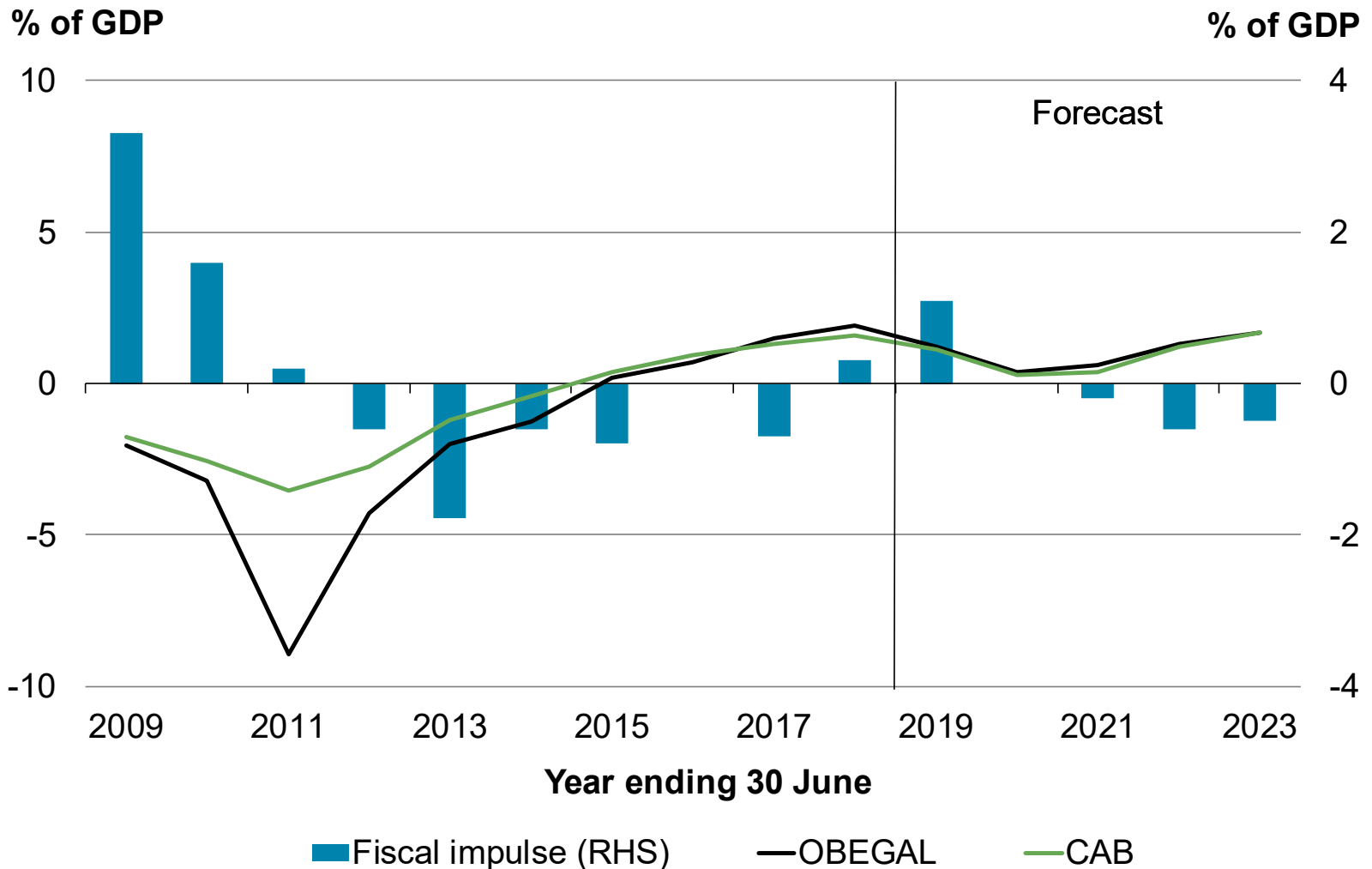
Keeping our finger on the impulse, we get a good lift from the Budget(s).

## Annual average % change



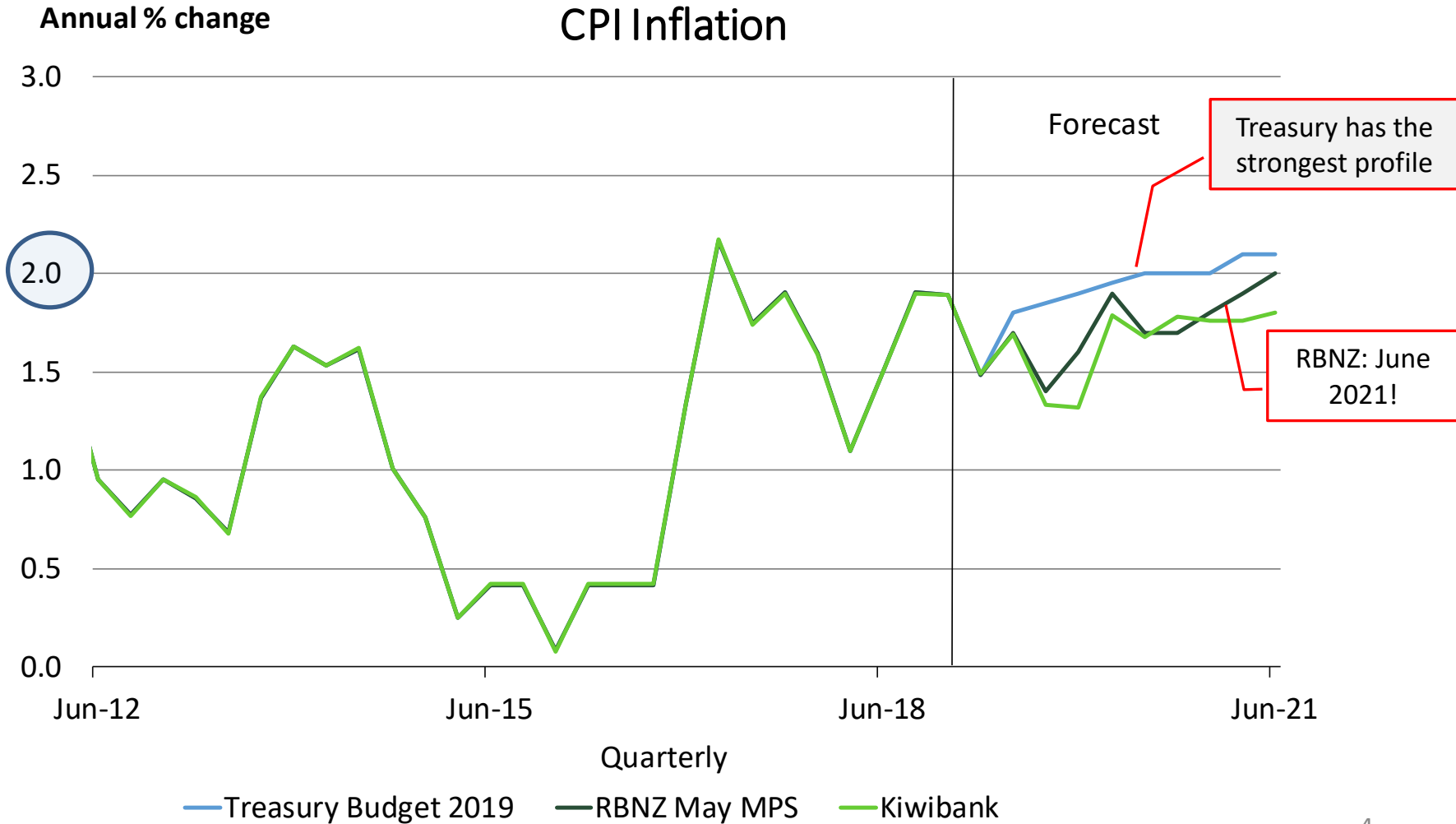
# Keeping your finger on the impulse.

We get a good, delayed, lift from the Budget(s).



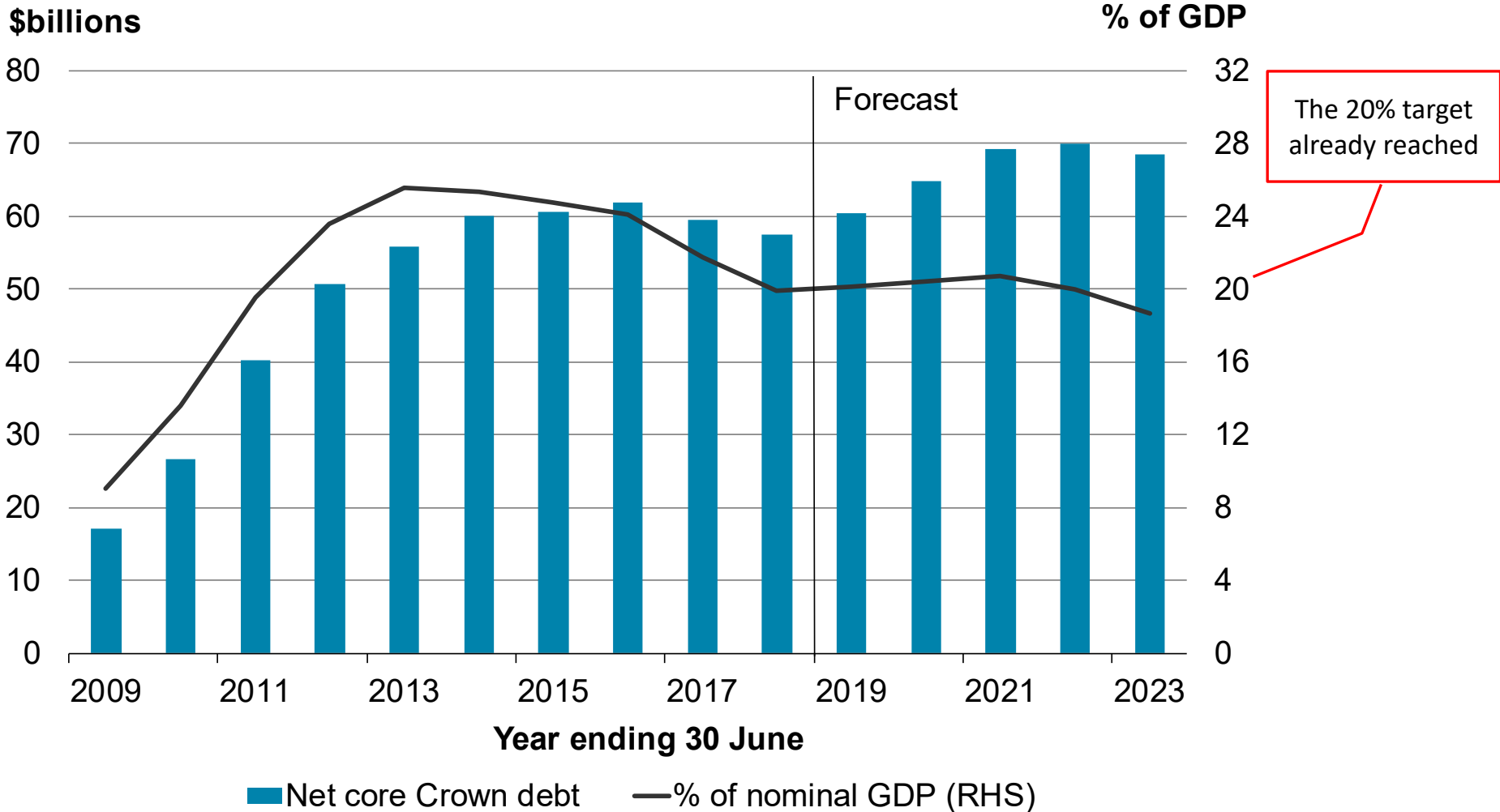
# Inflation is coming, we hope.

The Treasury is most conservative, even behind the RBNZ, and the mighty Kiwibank.



# Govt net debt has peaked, already.

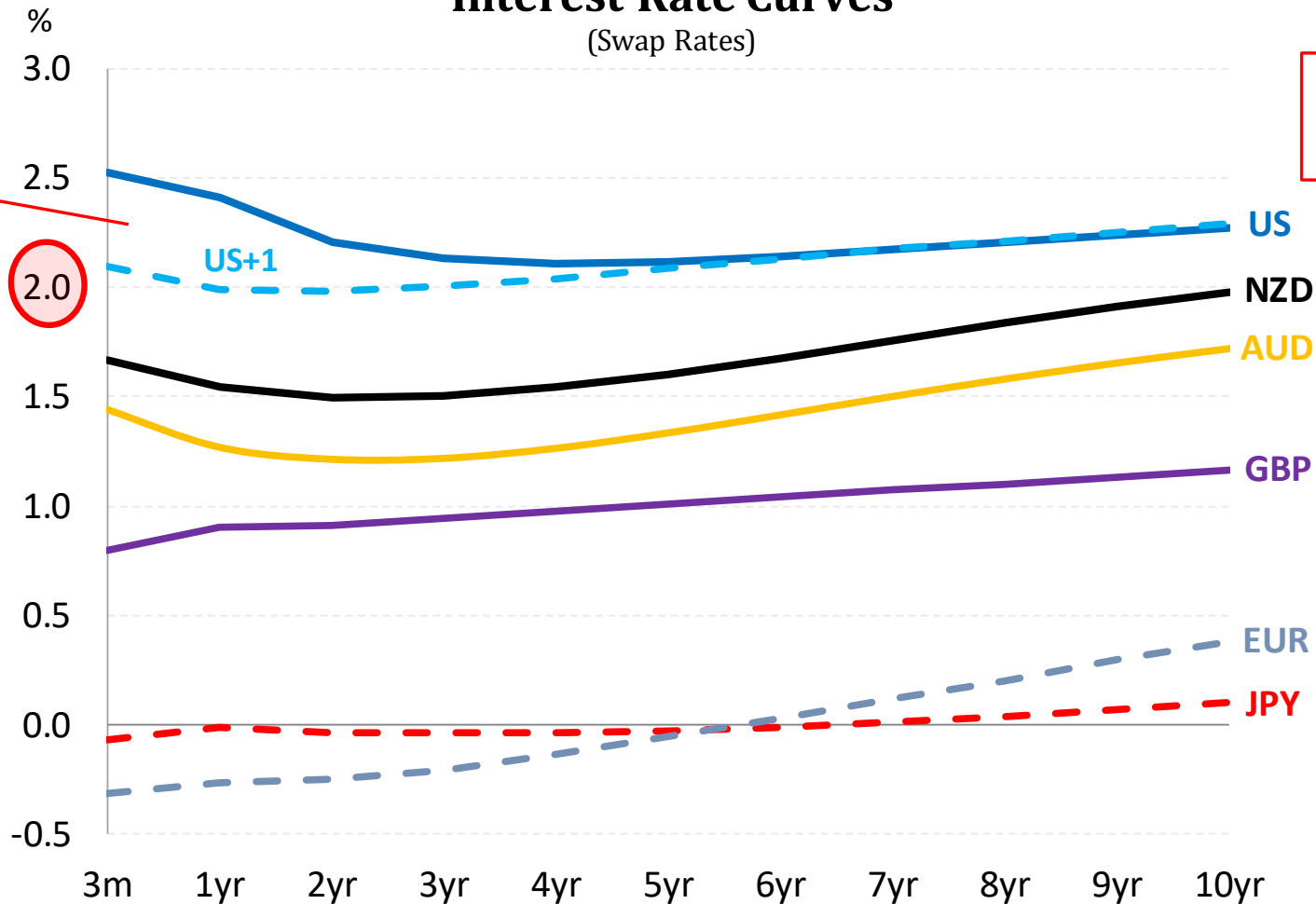
But why are we so obsessed with 20% (of GDP)? We don't need to be...



# Everything we need to know...

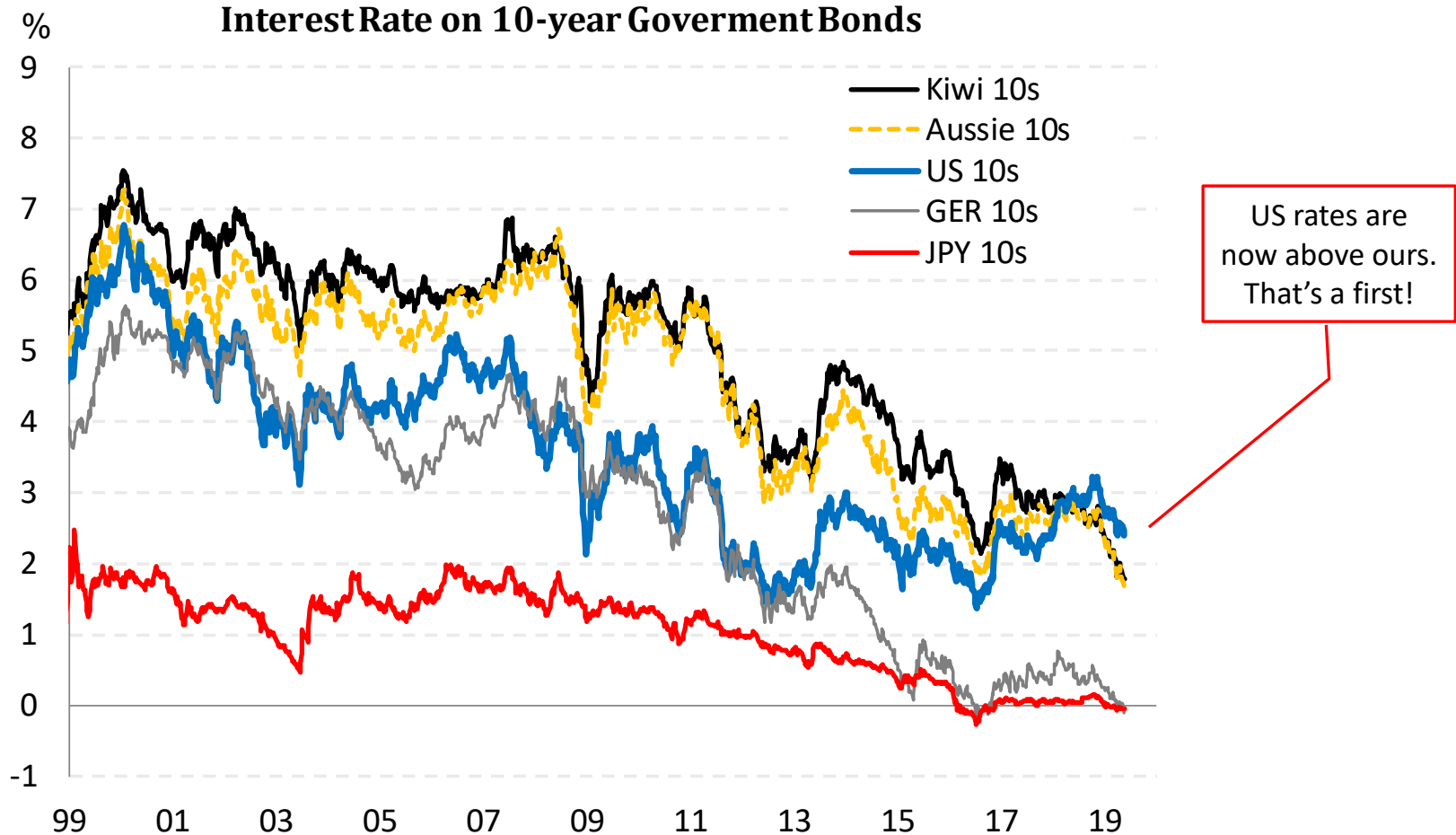
Interest rates are low, very low, and will remain very low for a very long time.

**Interest Rate Curves**  
(Swap Rates)



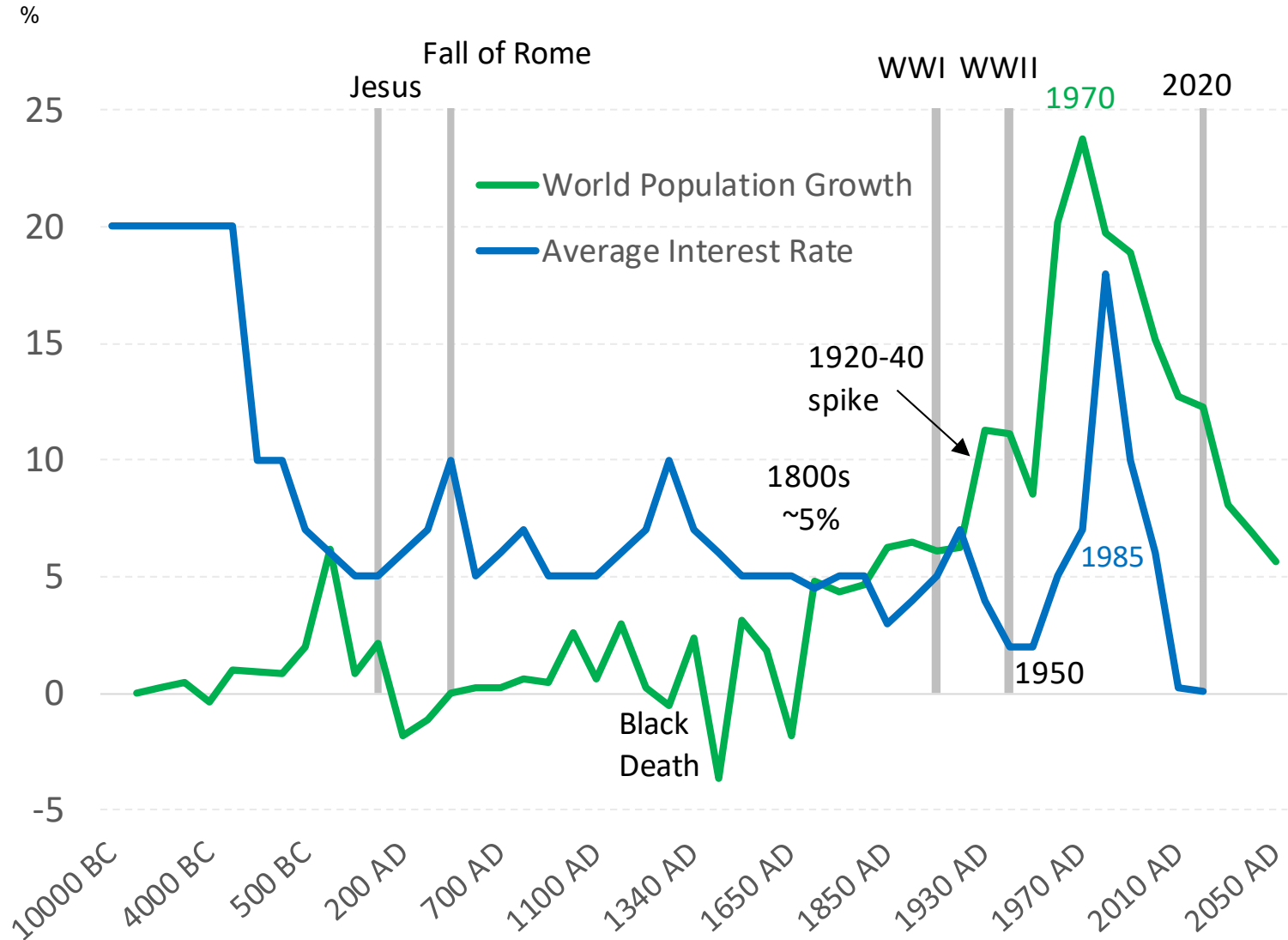
# Term interest rates are falling...

... as central banks turn dovish to protect asset values (inflation).



# We have interest rates going back 5000 years...

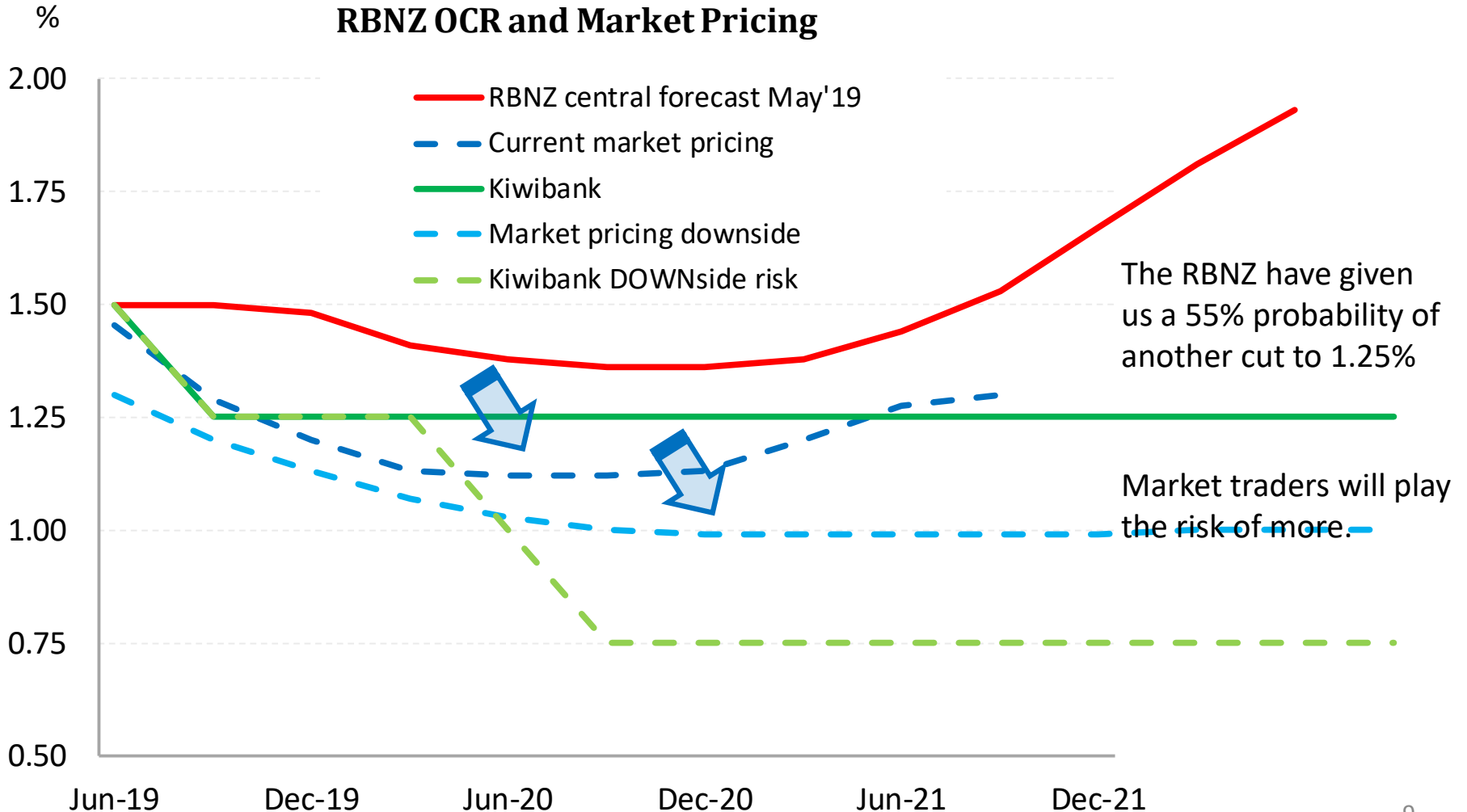
... we haven't seen lower levels ever, even when the Egyptians leveraged their pyramids.





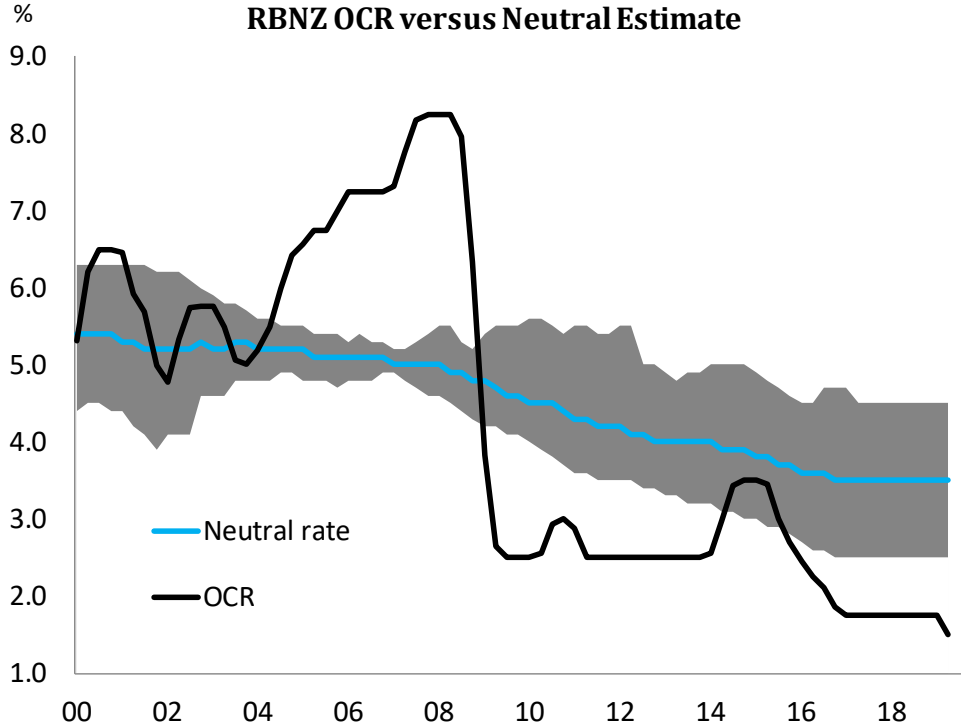
# The RBNZ are likely to cut again, and maybe again...

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



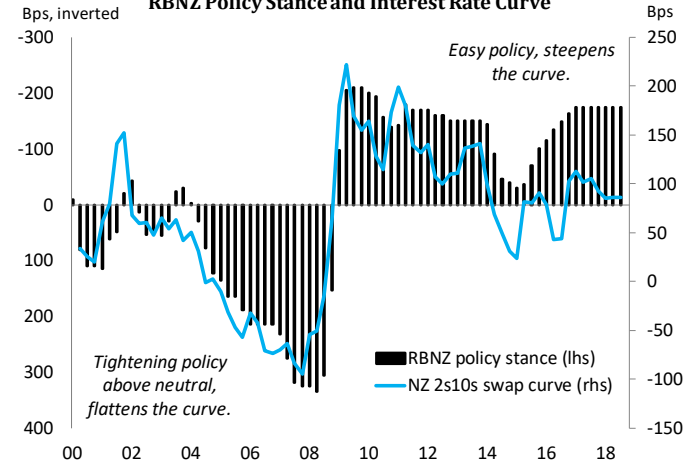
# So policy remains cleverly accommodative...

**RBNZ OCR versus Neutral Estimate**

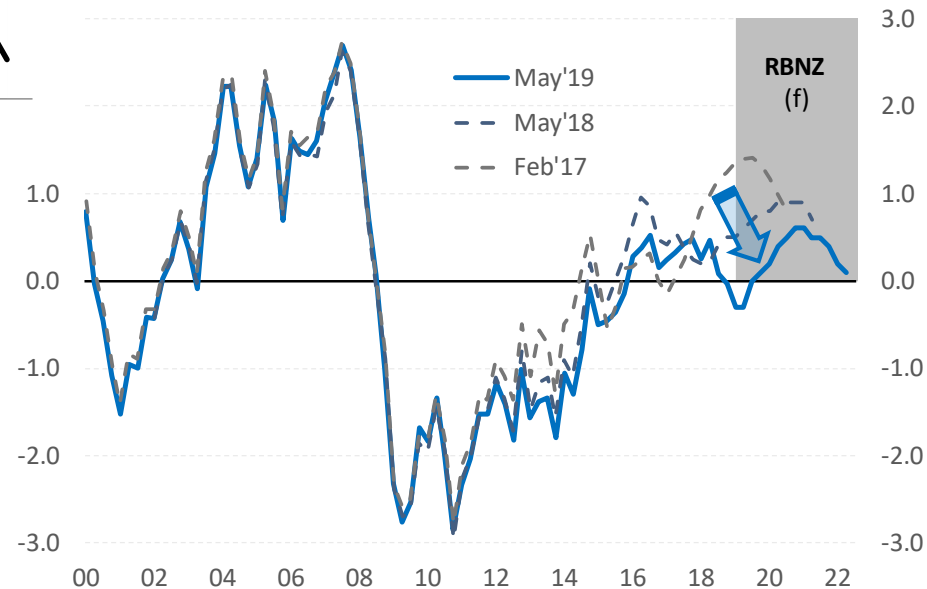


... and the RBNZ continues to forecast a move above potential (trend) growth.

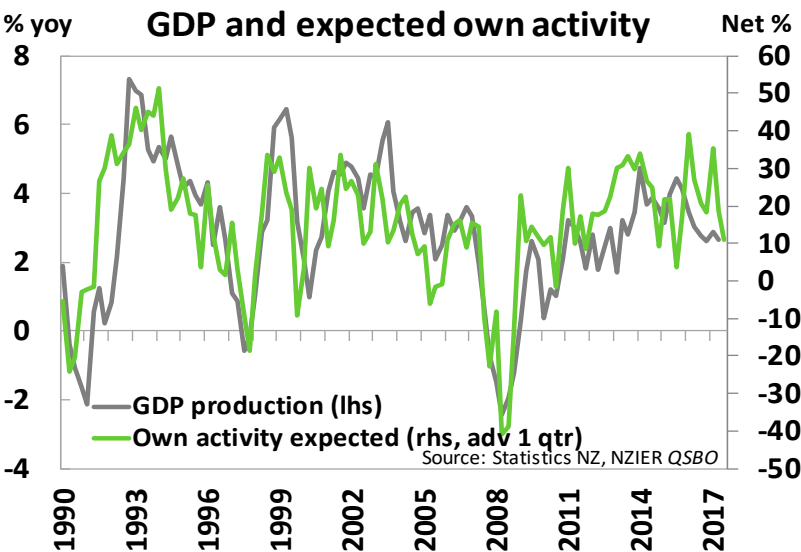
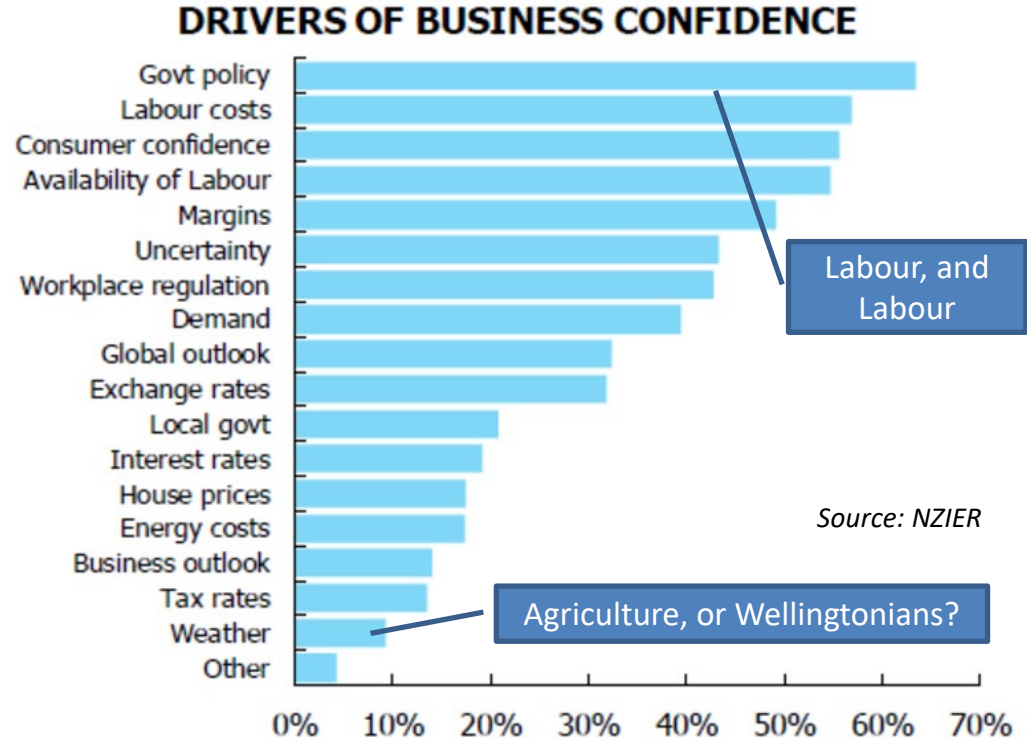
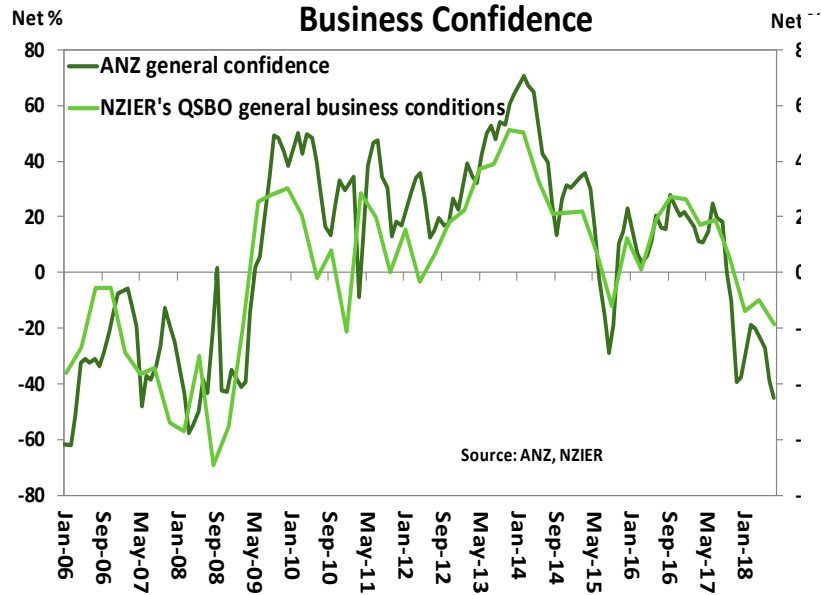
**RBNZ Policy Stance and Interest Rate Curve**



**RBNZ Forecast Output Gap**



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



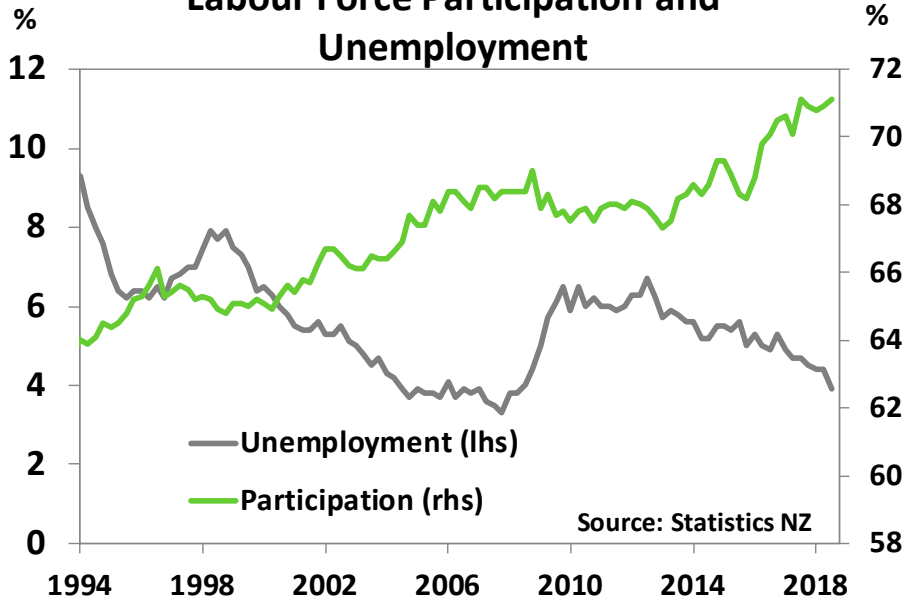
Business confidence should be supported by:

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

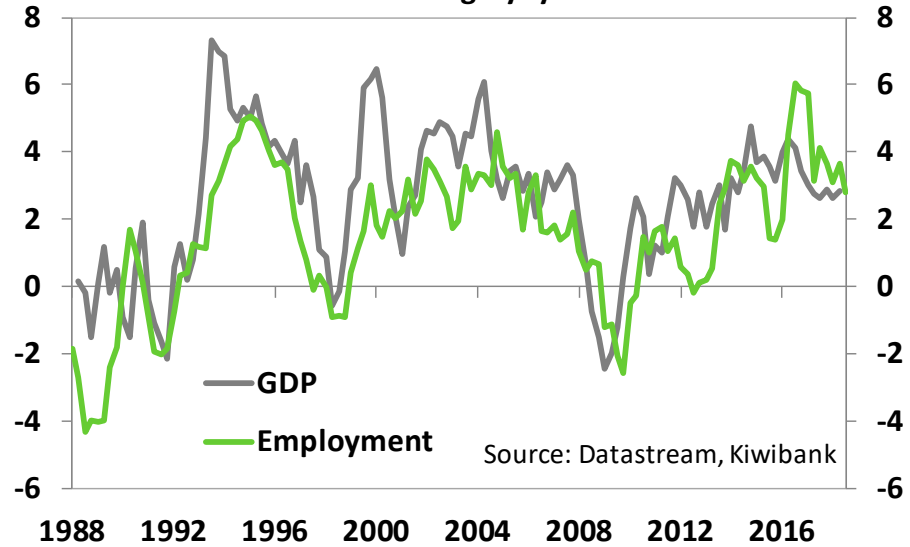
# The labour market is tight.

The nominal economy is bigger, wages are starting to rise, and unemployment payments are fewer. More tax in and less welfare out, means a better budget position.

**Labour Force Participation and Unemployment**



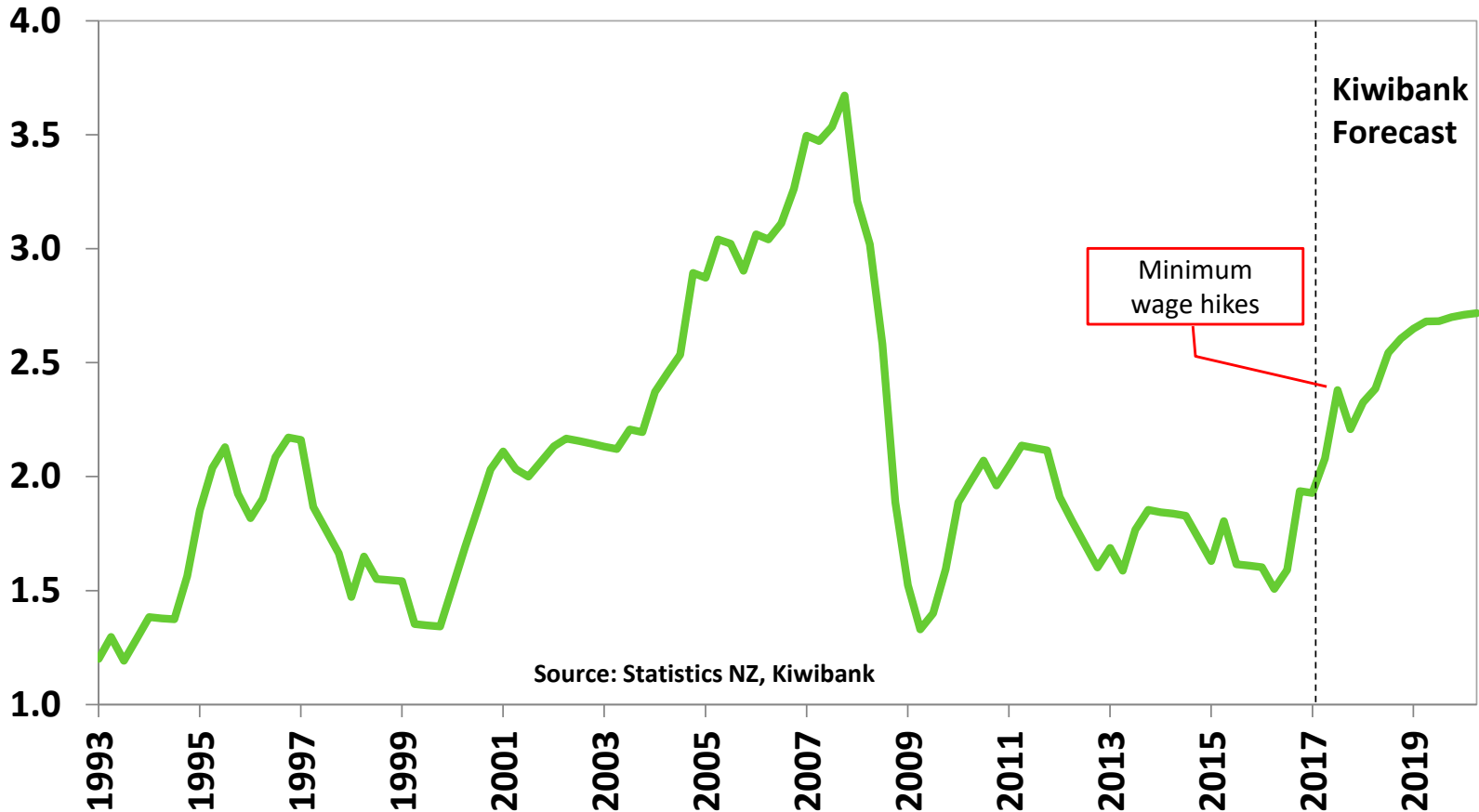
**Employment and GDP**  
% change yoy



# We need to see wage growth first...

... because inflation has been too tame for too long.

## Private Sector Labour Cost Index % YoY





There are 3 Ps to Property:

- ❖ Population
- ❖ Preference
- ❖ Policy

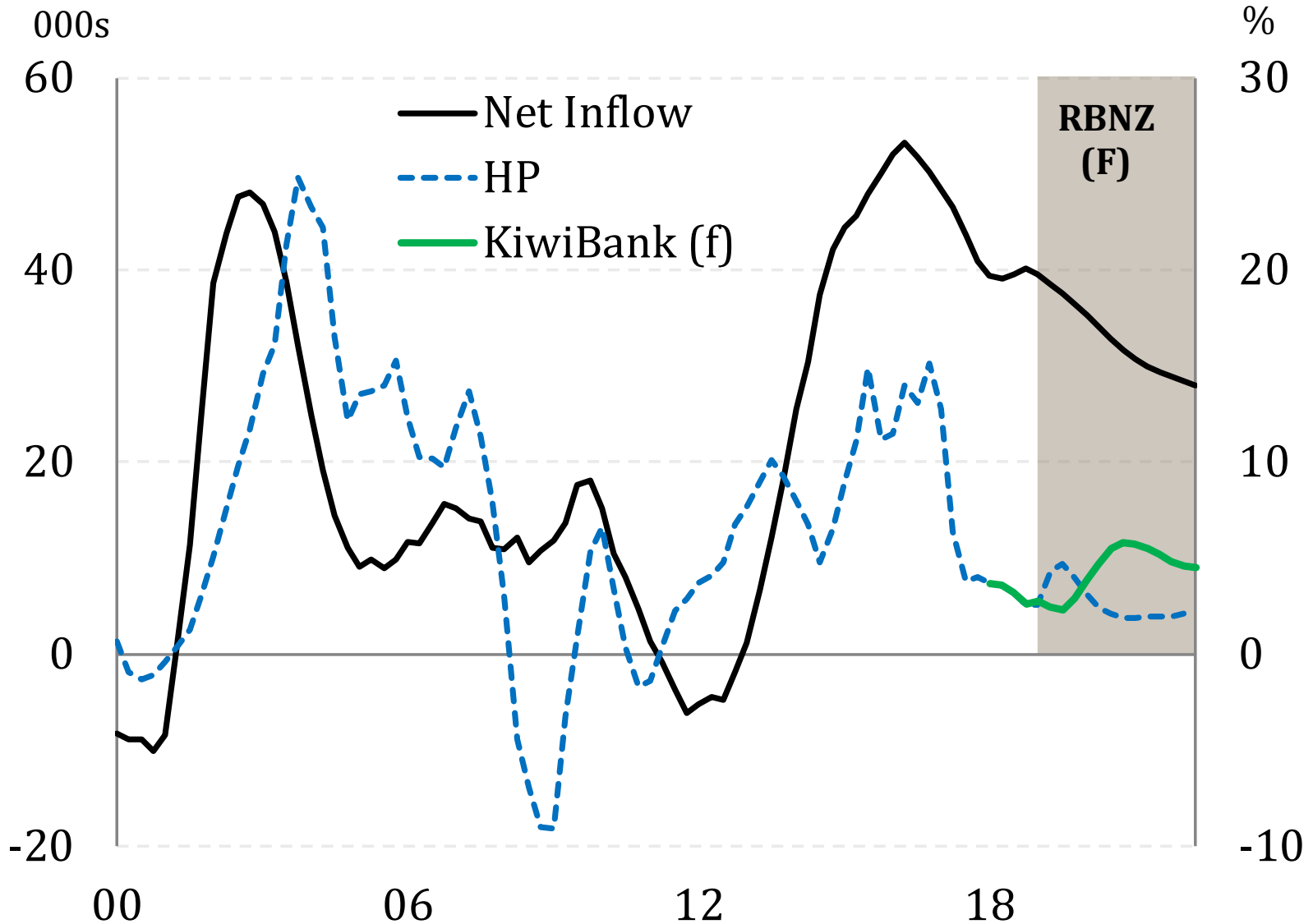
## Our housing market is well supported.

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### The 3 P's of property are:

- ❖ **Population** – we've had a massive migration boom, that hasn't ended.
- ❖ **Policy** – the RBNZ has tightened lending standards with one hand, and lowered interest rates with the other. Bank capital hikes are forthcoming. But CGT is gone (under Jacinda Ardern).
- ❖ **Preference** – our dreams for housing have adapted to undersupply, and moved towards high(er) density.

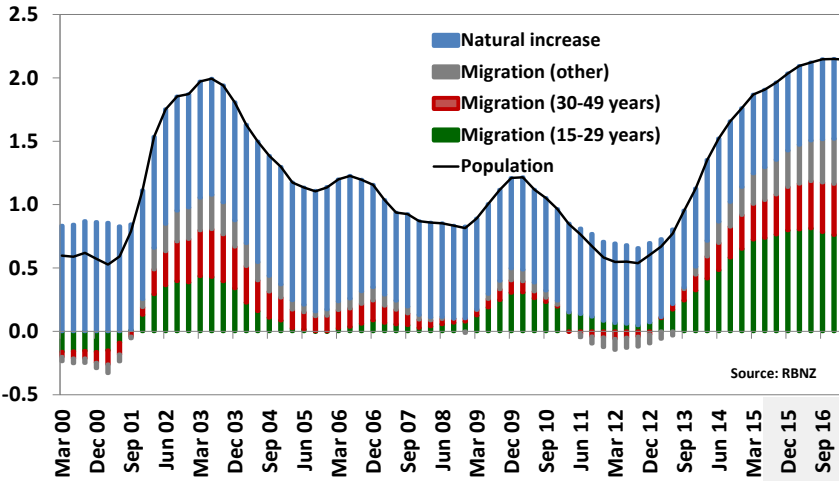
# Population: we've had a mammoth migration boom.



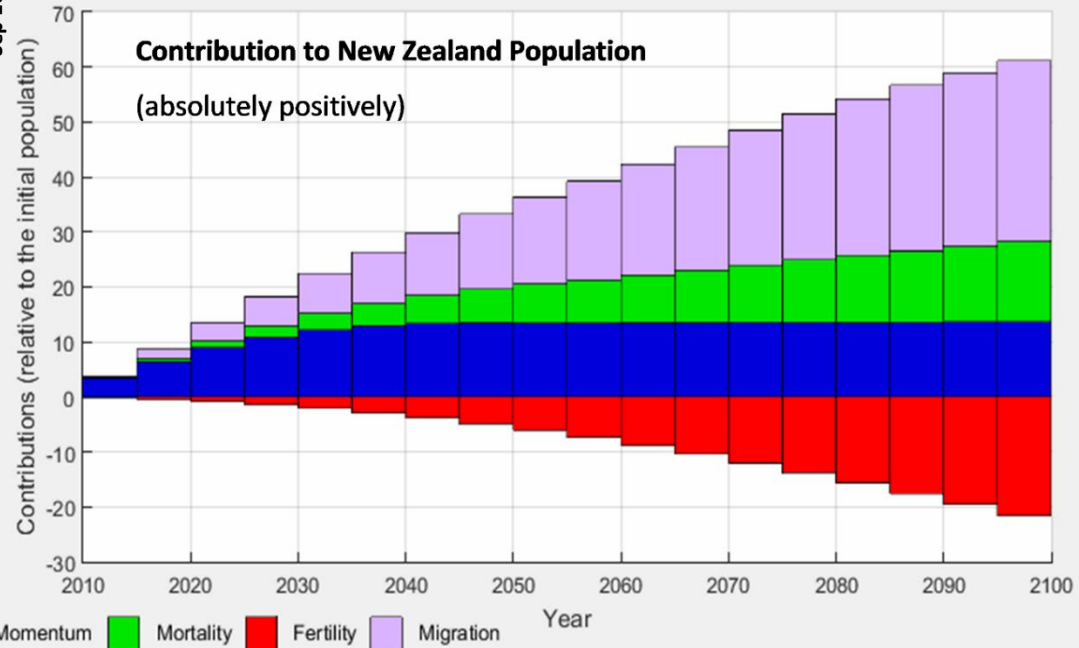


# Population: does not peak.

Contribution to population growth  
(annual %)



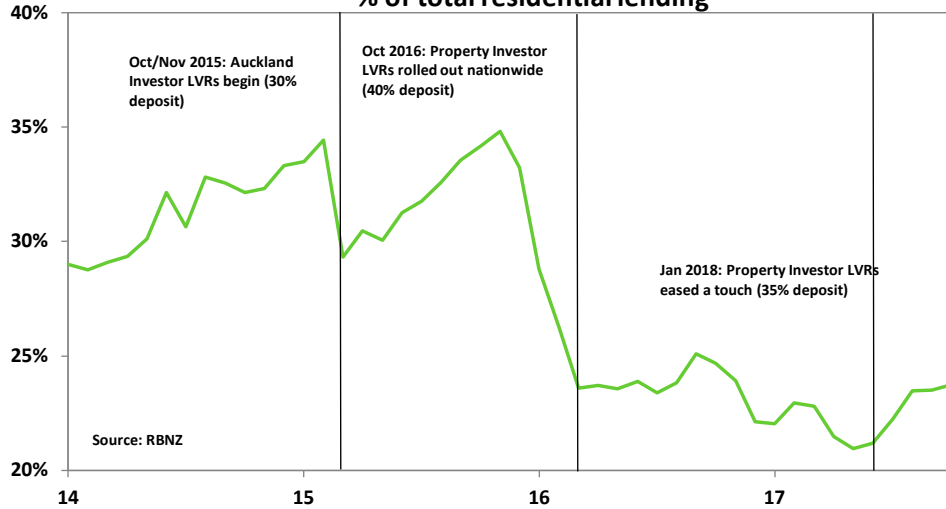
Our population estimates do not peak, in our lifetimes.



United Nations, Department of Economic and Social Affairs, Population Division (2015).  
Demographic Components of Future Population Growth: 2015 Revision. New York: United Nations. URL: [unpopulation.org](http://unpopulation.org)

# Policy: Macropru policy has restrained investors

**Residential investor mortgage lending share**  
% of total residential lending



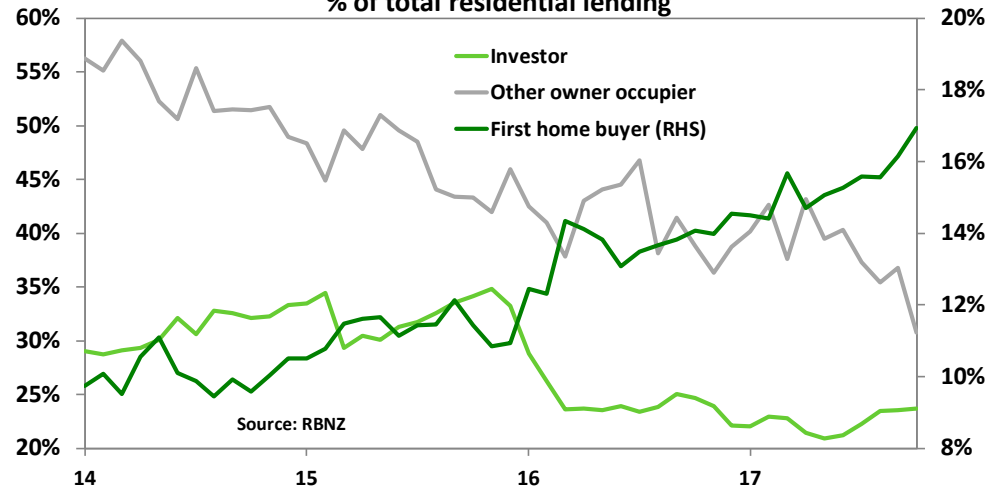
*“We find that the LVR restrictions have significantly improved the resilience of the banking system.”* RBNZ LVR Review 2019

Lending was a little too aggressive over 2014-16.

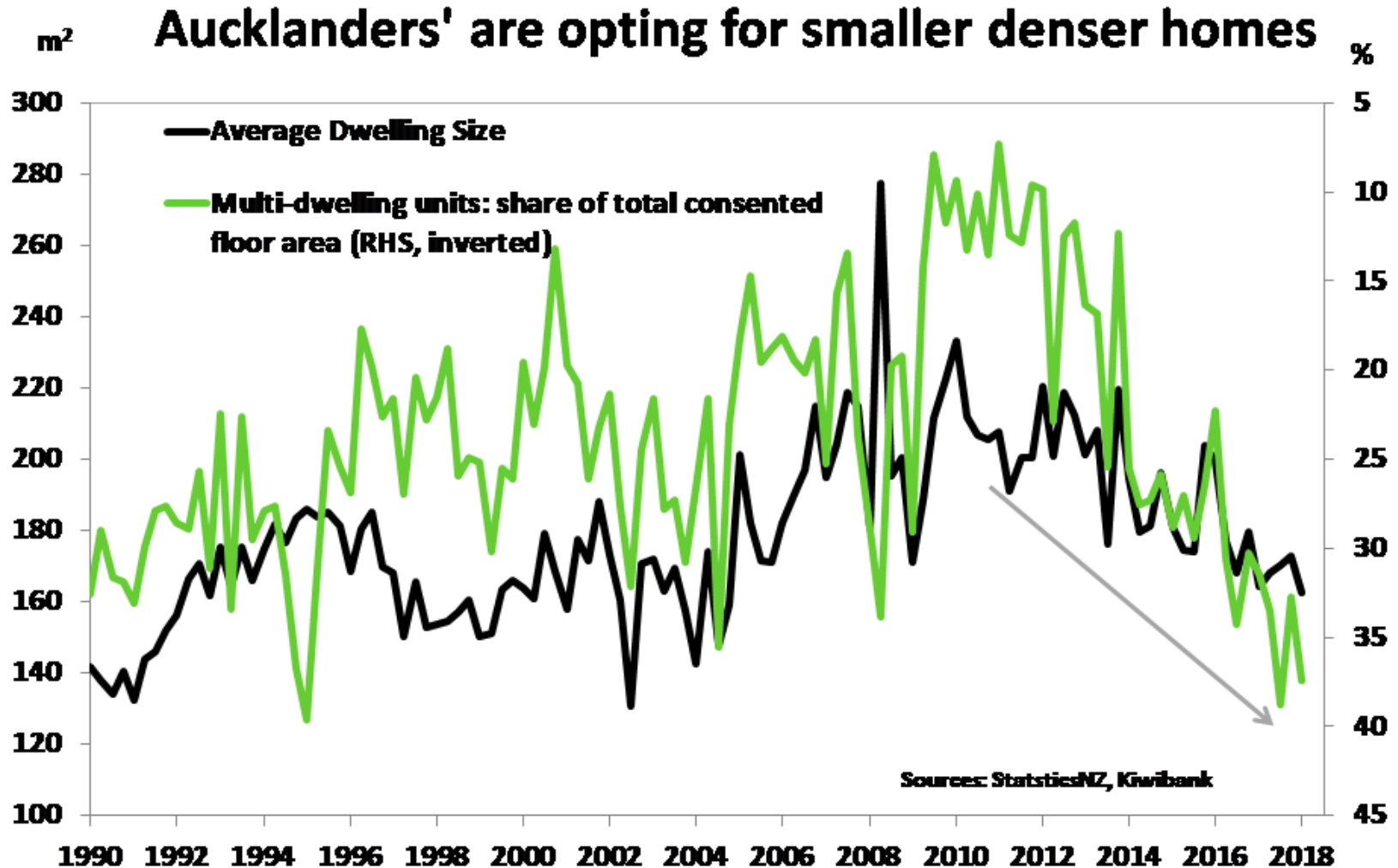
Now lending is safer, but slower.

First home buyers have increased as a percentage of total.

**Residential mortgage lending share by borrower**  
% of total residential lending



# Preference: is moving to higher density (globally)

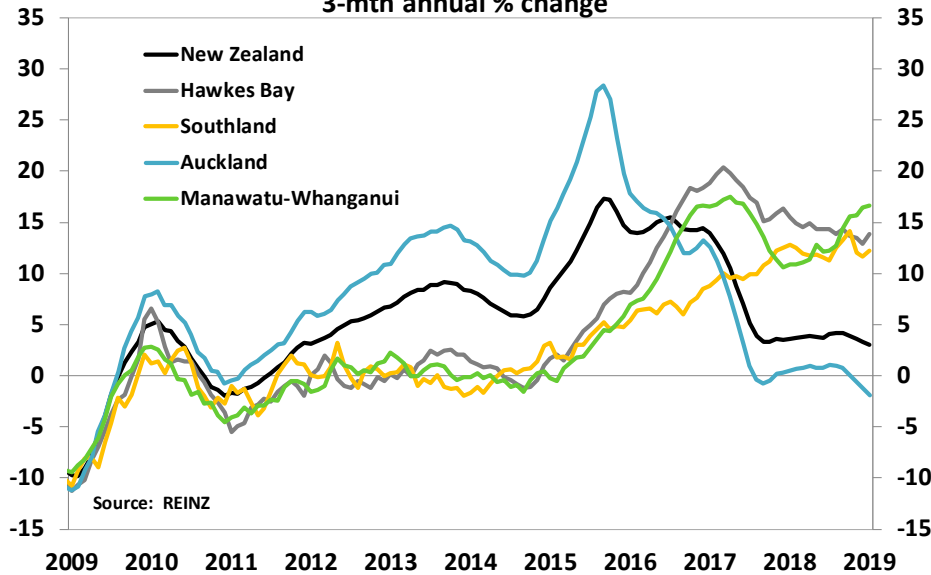


# Auckland benefited from foreign interest.

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

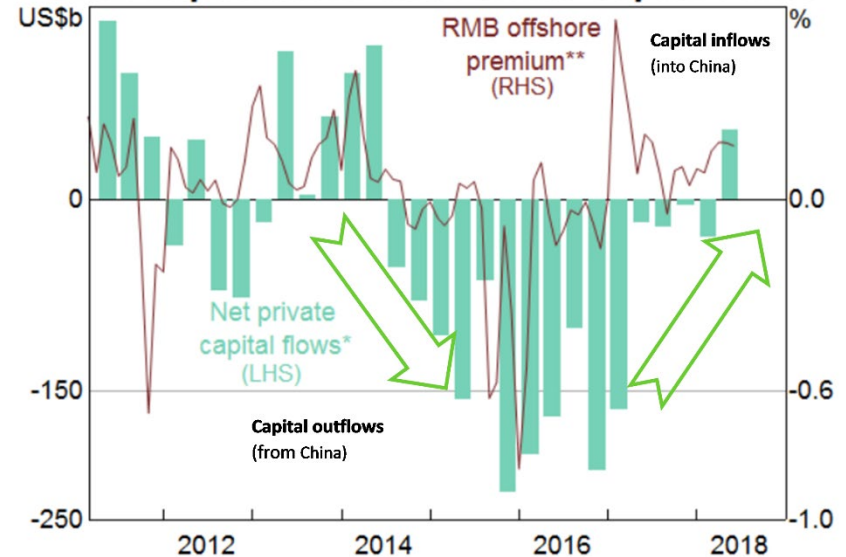
**REINZ house price index**

3-mth annual % change



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

**RMB Expectations and Private Capital Flows**



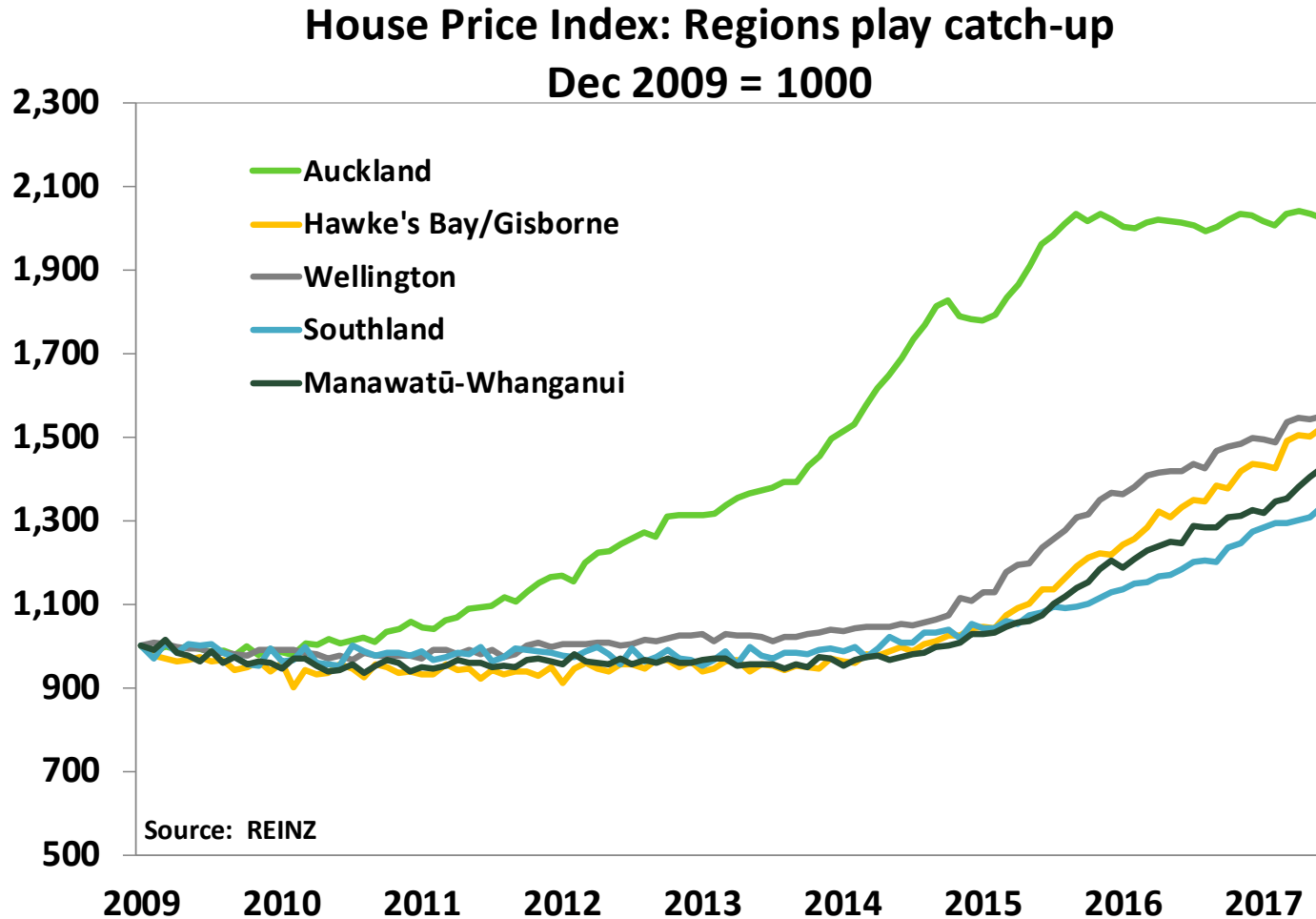
\* Includes net errors and omissions

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

Sources: Bloomberg; CEIC Data; RBA

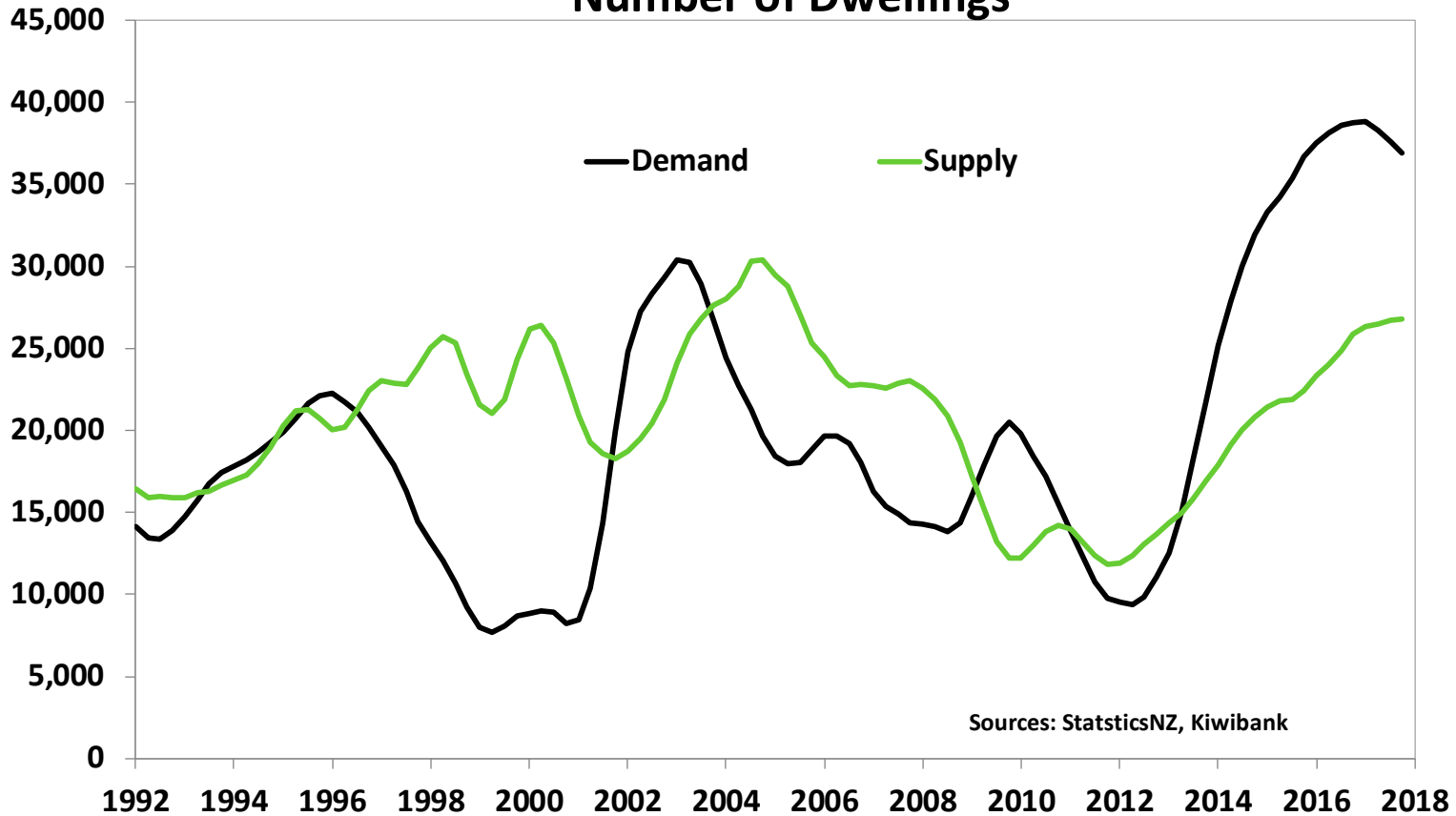
# The regions are playing catch up...

As some Aucklanders leave.

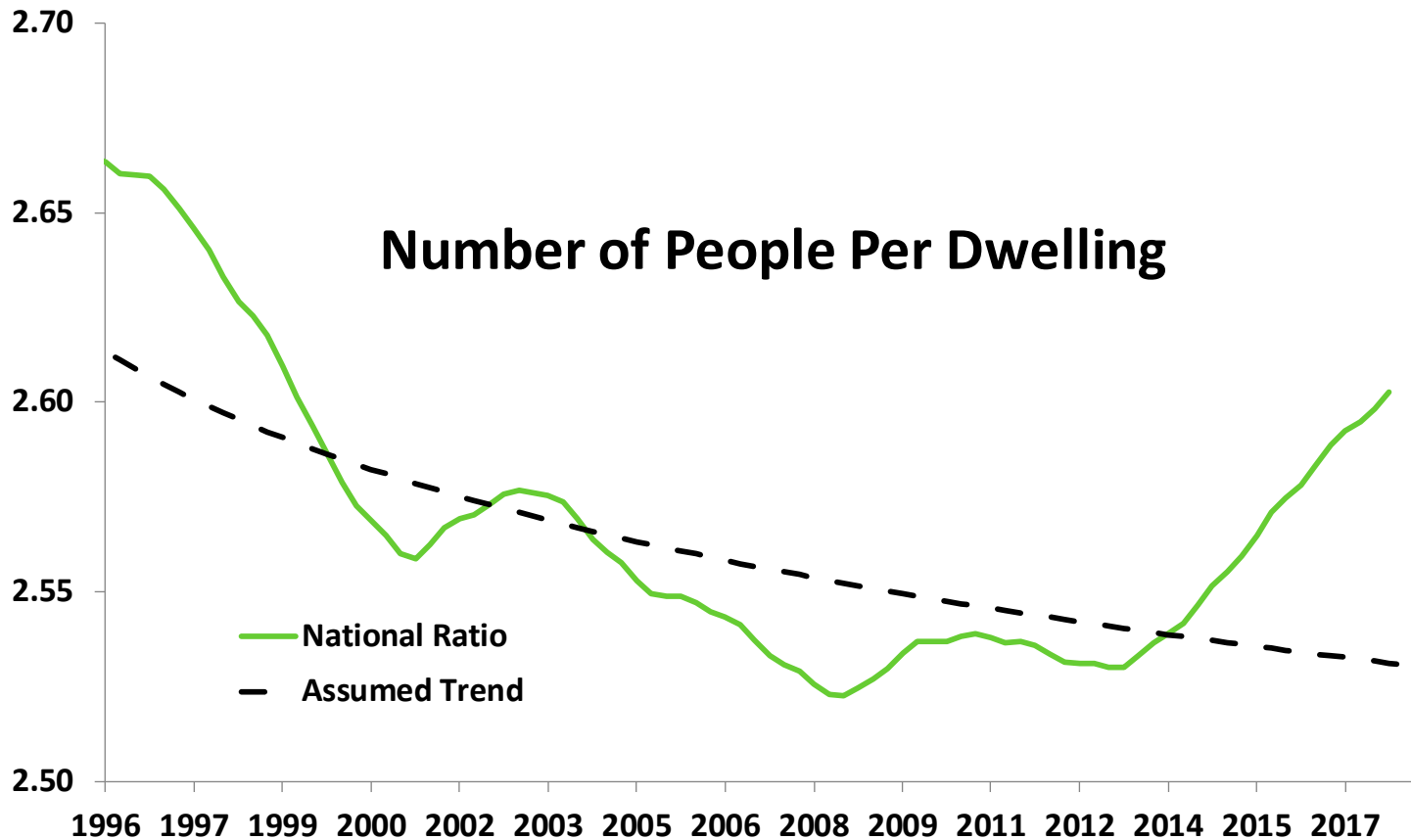


# We like playing with models. Here's ours...

## Change in Housing Demand and Supply Number of Dwellings



# We are short 100,000 homes!



Sources: Statistics NZ, Kiwibank

**The recent spike in people per dwelling confirms undersupply.**  
 Think battery hens rather than open range. Peoples preferences are adapting.

# Are there any Questions

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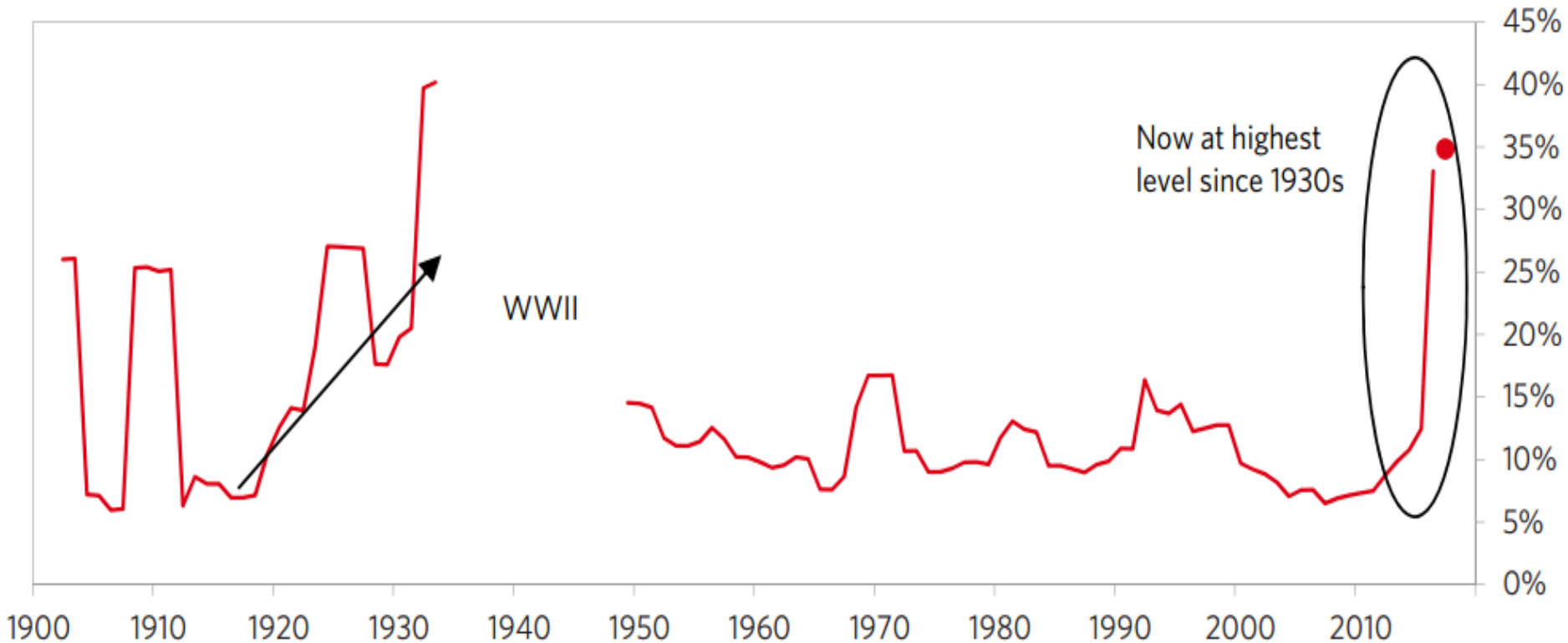


# The rise of the angry voter, is popular in disbelief.

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

## Developed World Populism Index\*

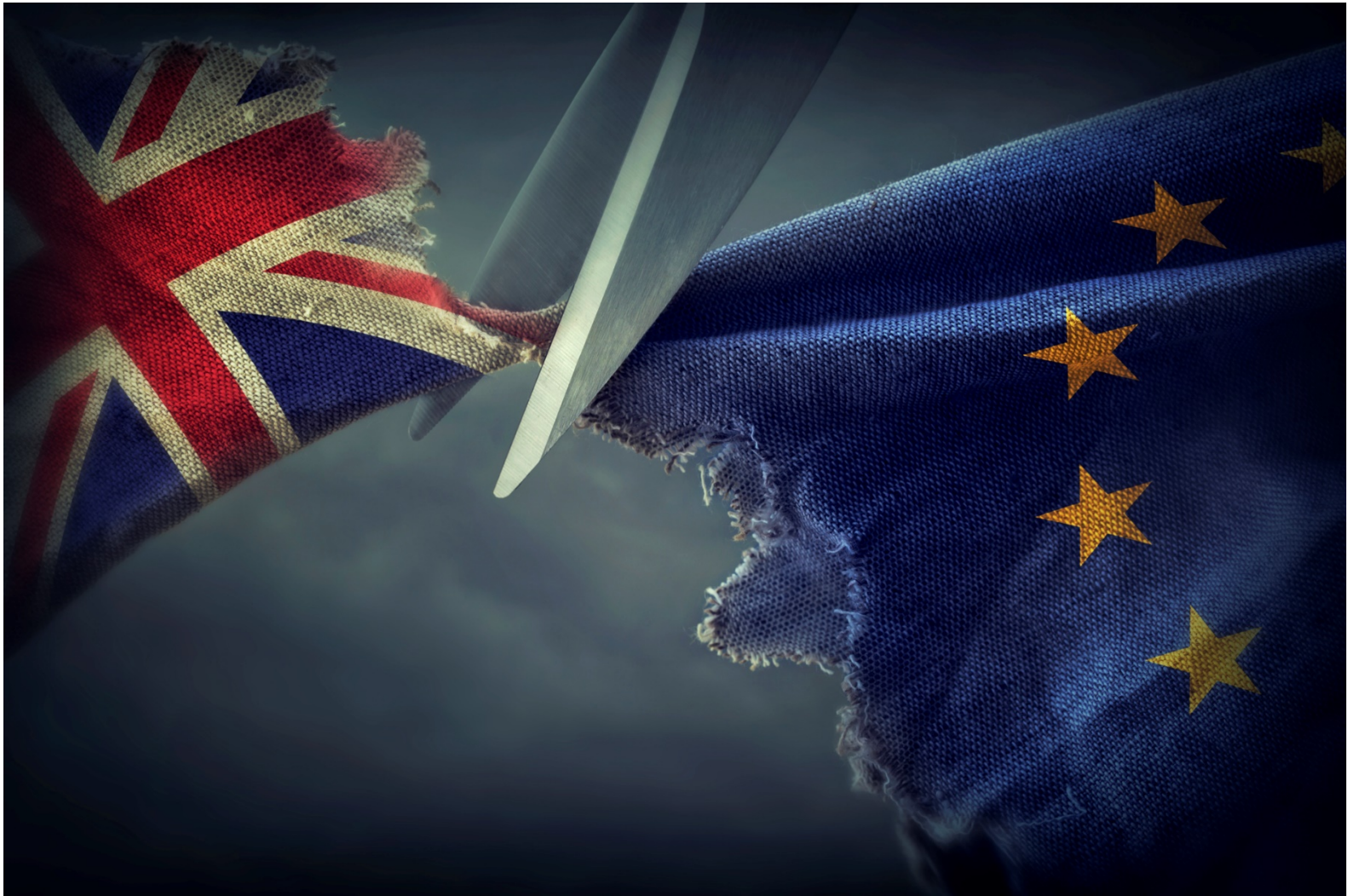
— Vote Share of Populist/Anti-Establishment Parties      ● Timely Estimate from Polling



\*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)

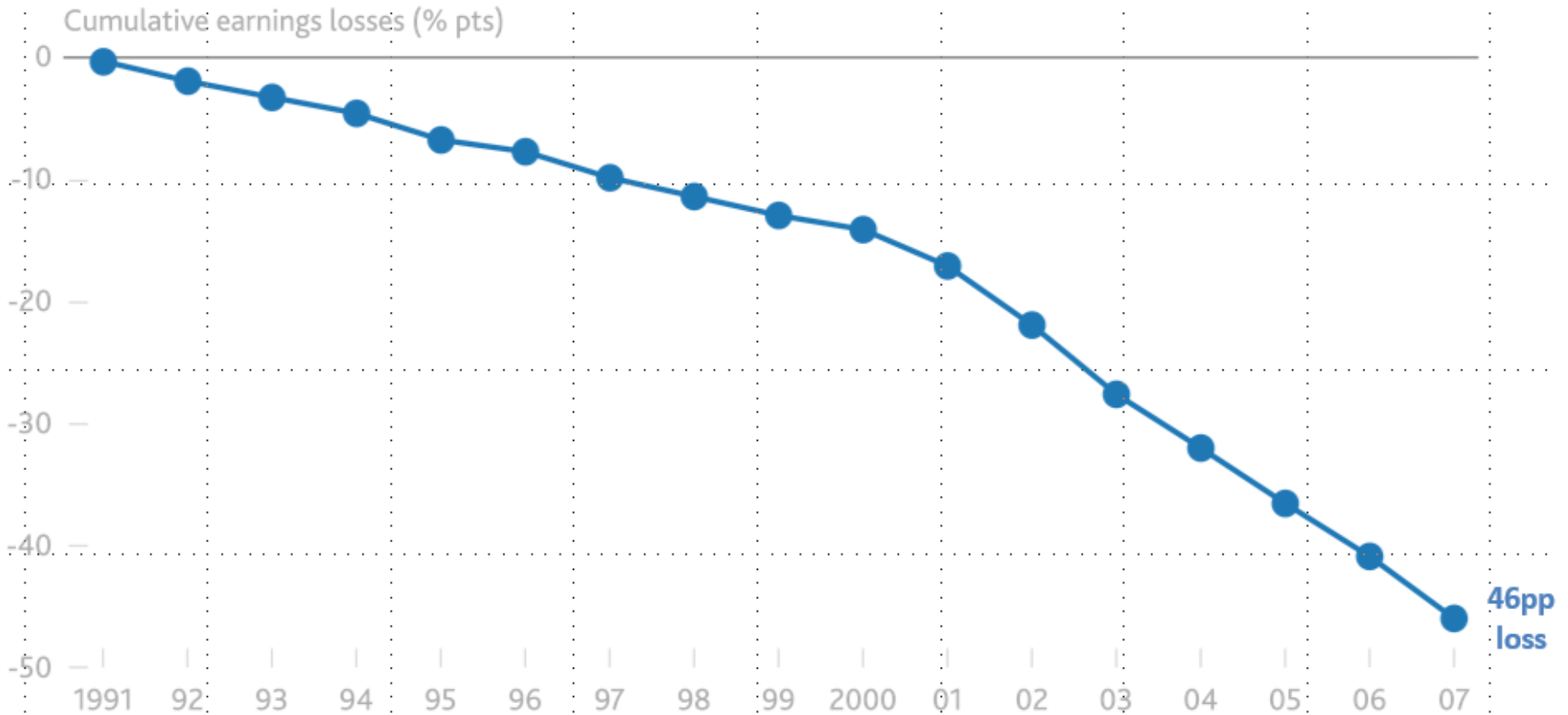
## Brexit Breaking Bad...

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.



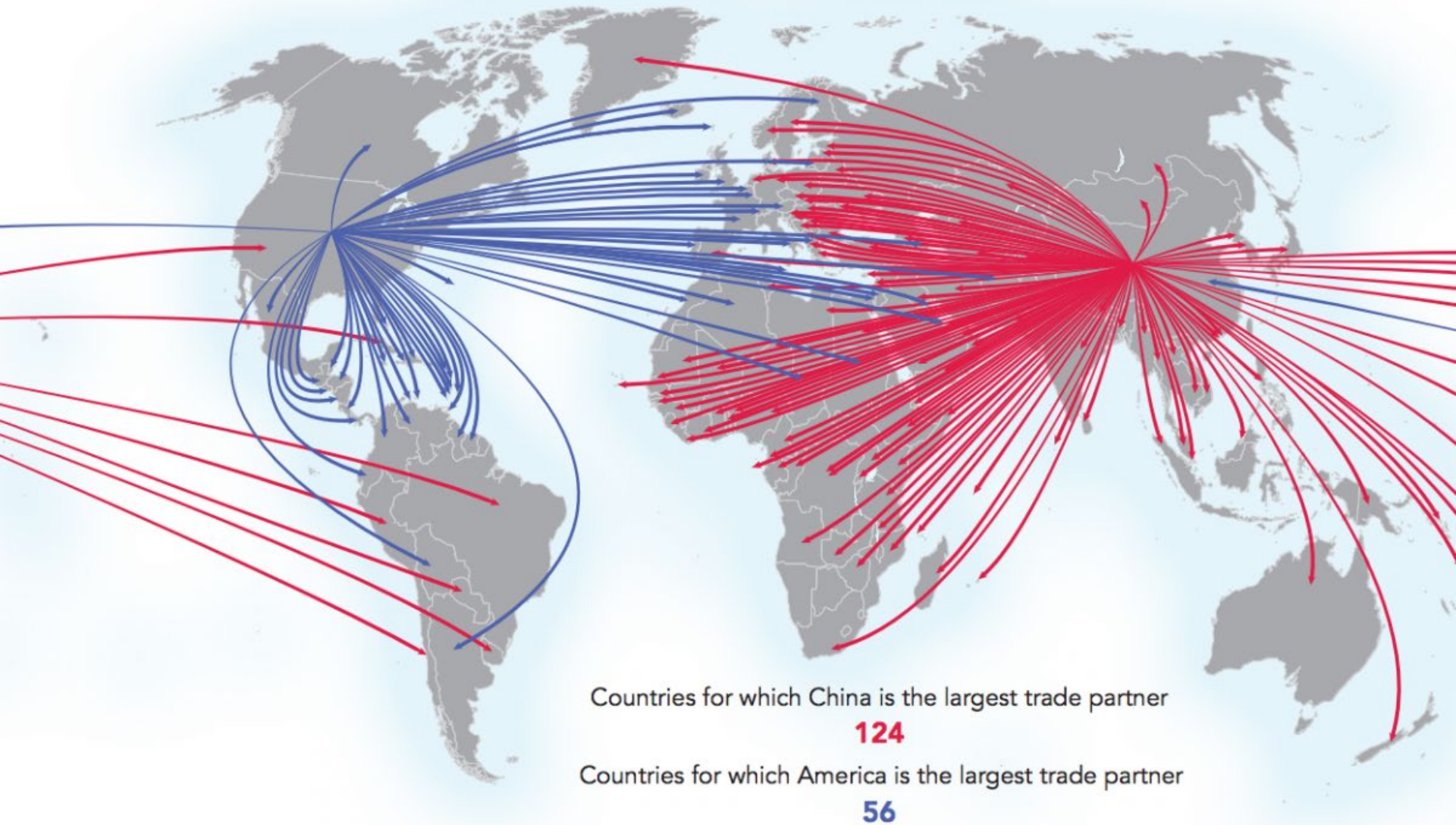
'Trade adjustment: worker-level evidence' by Autor, Dorn, Hanson and Song

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

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



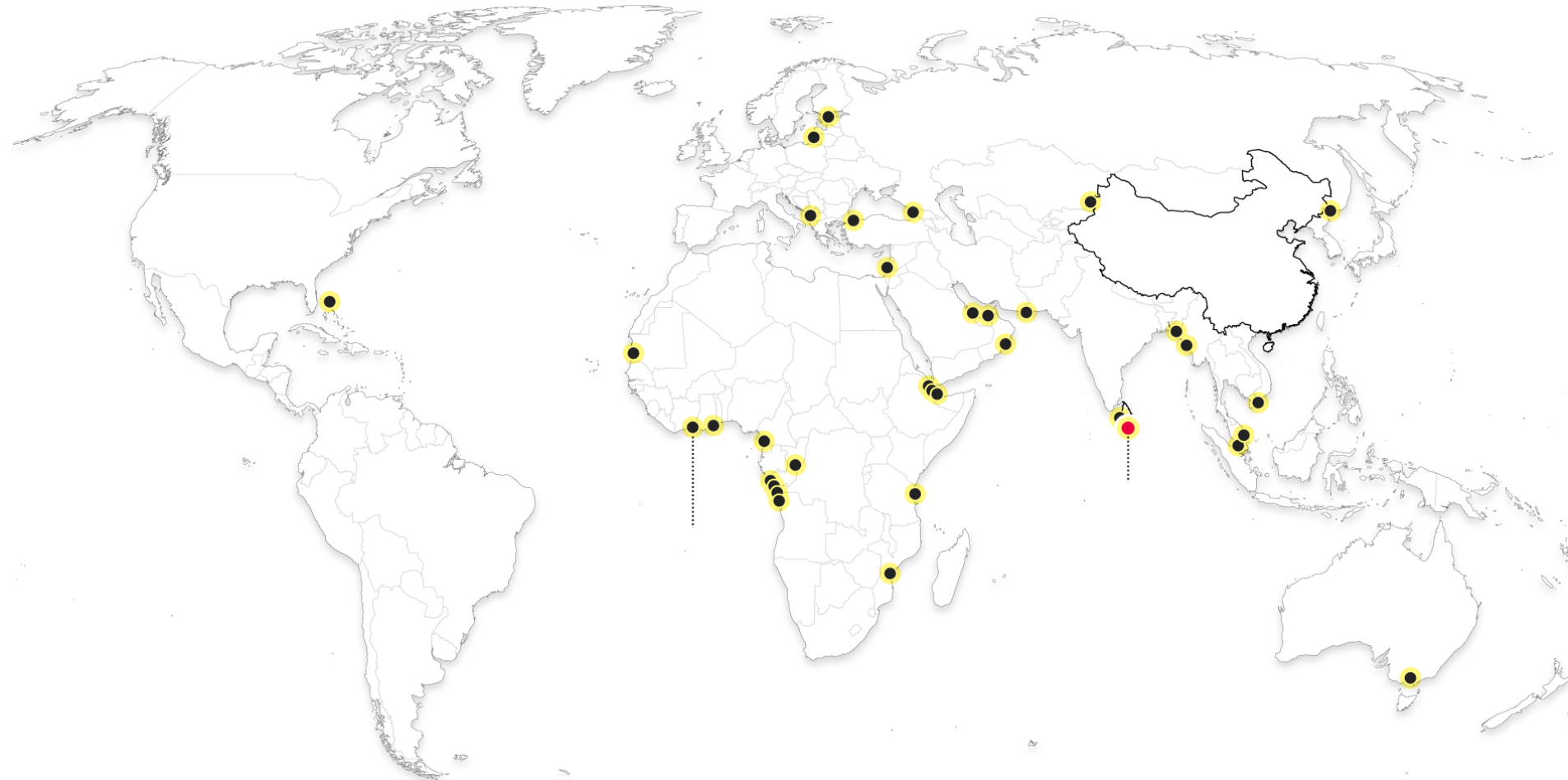
# China is the world's largest trading partner.



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

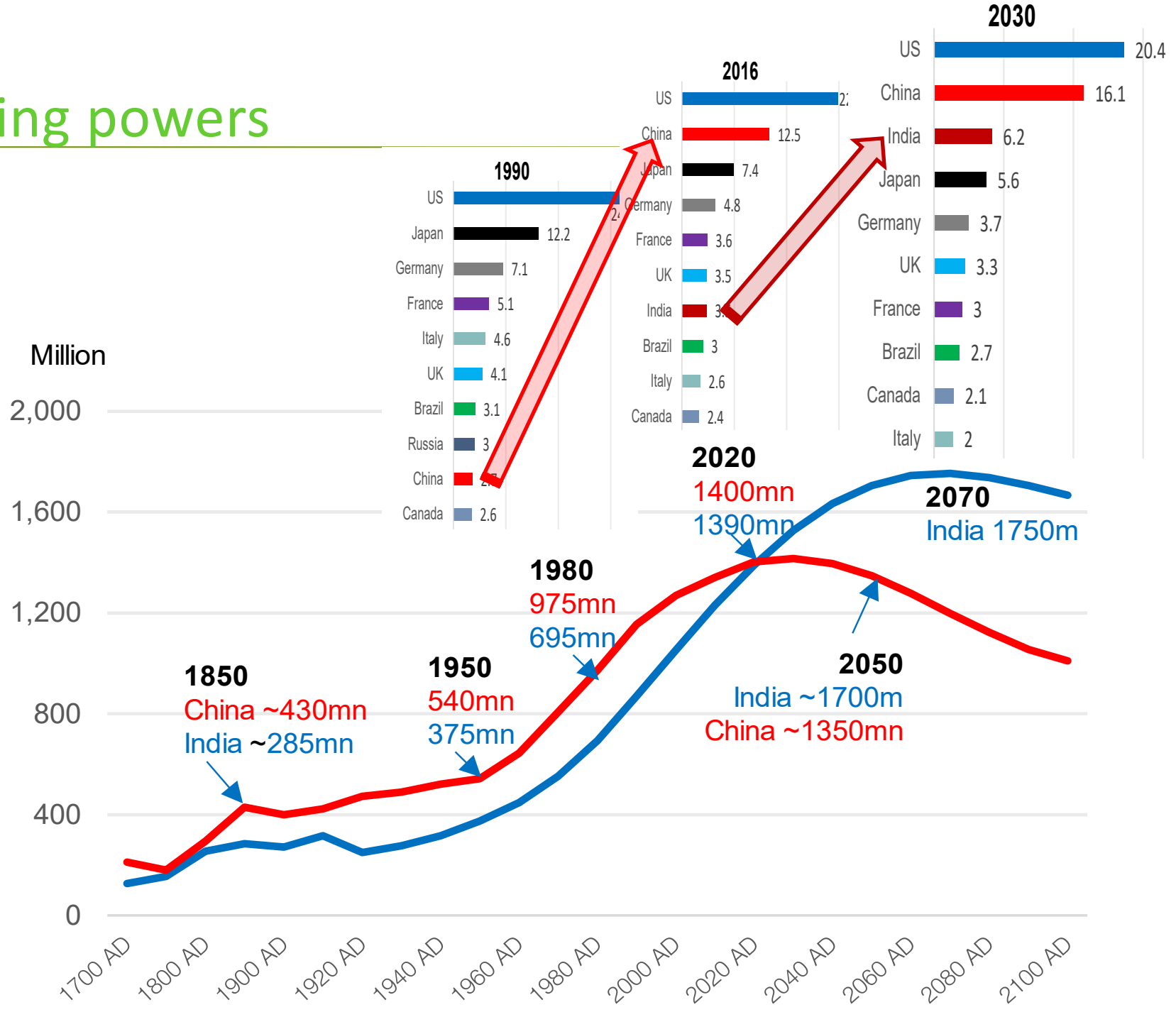


# 35 strategic Chinese-funded ports, will test the US.



Source: NY Times

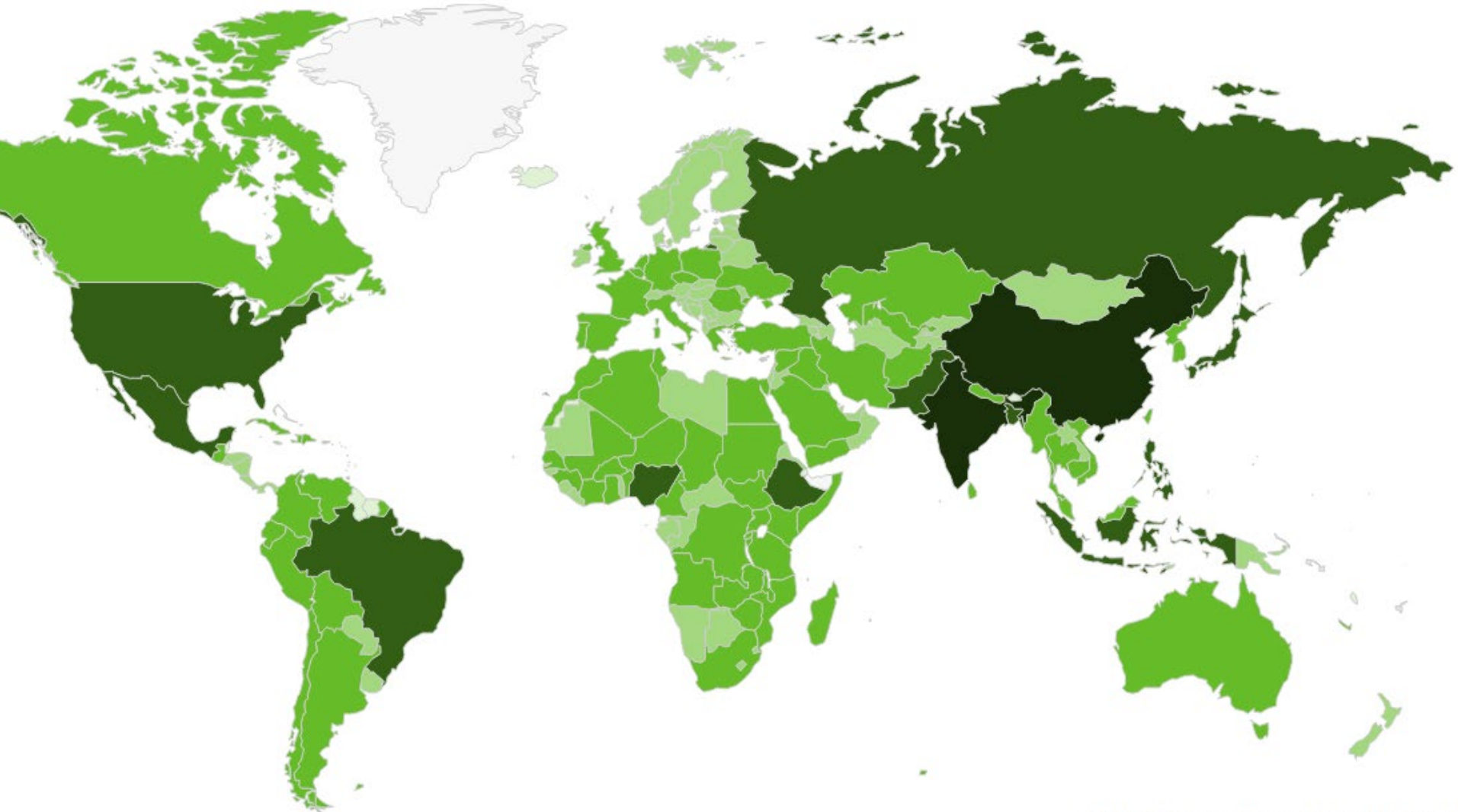
# Rising powers



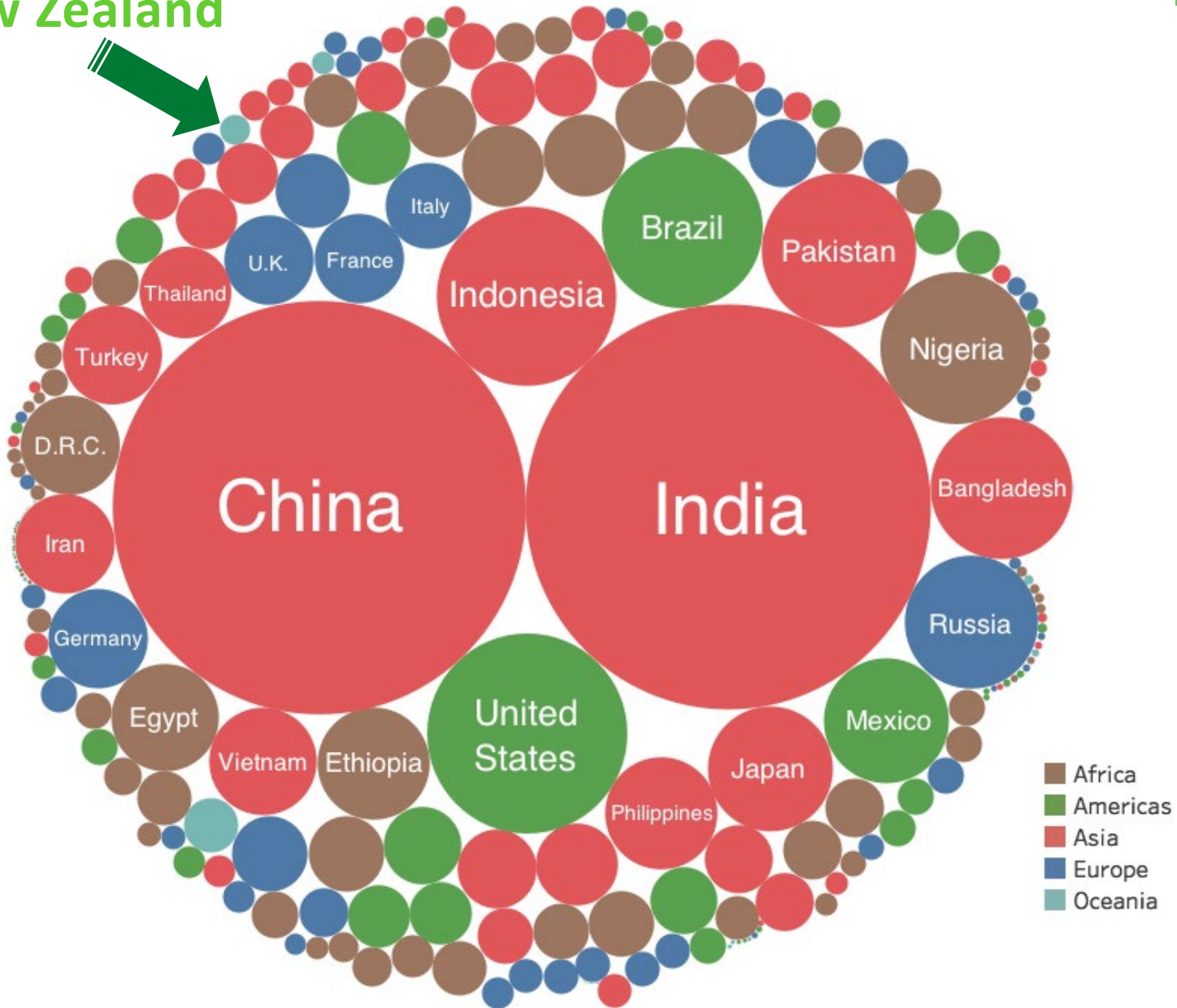


## We are geographically closer to the action.

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



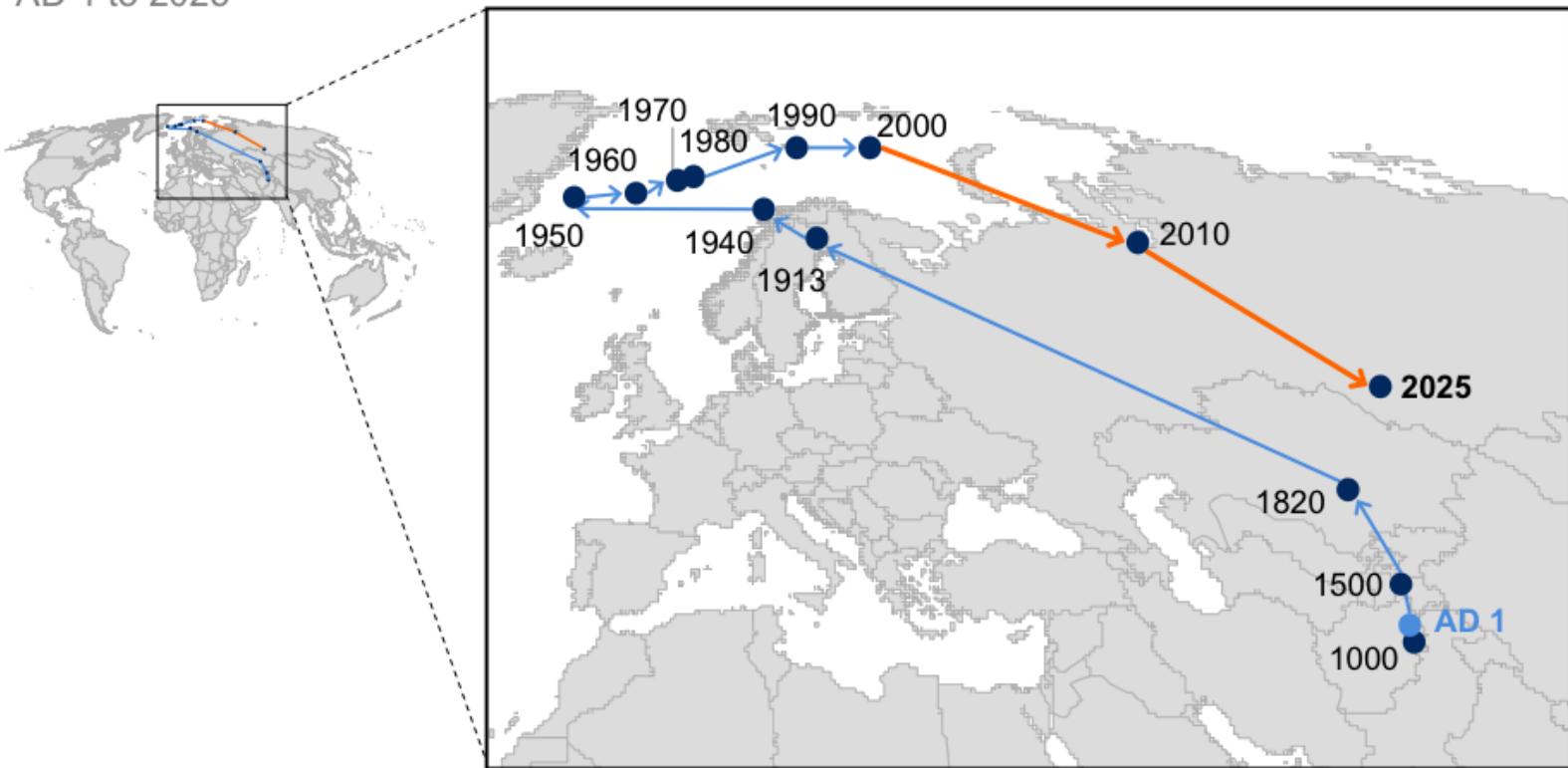
New Zealand



# The economic centre of the world is *still* shifting.

**By far the most rapid shift in the world's economic center of gravity happened in 2000–10, reversing previous decades of development**

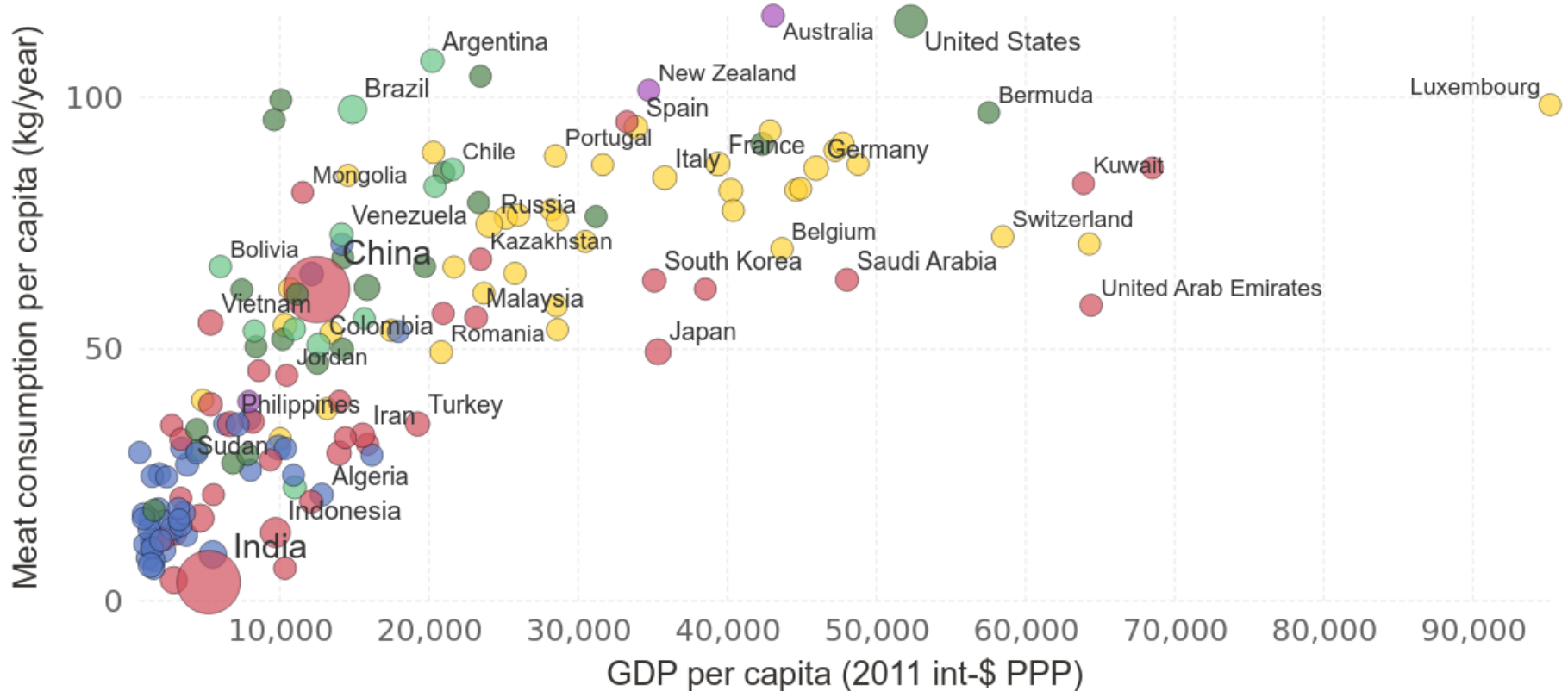
Evolution of the earth's economic center of gravity<sup>1</sup>  
AD 1 to 2025



<sup>1</sup> Economic center of gravity is calculated by weighting locations by GDP in three dimensions and projected to the nearest point on the earth's surface. The surface projection of the center of gravity shifts north over the course of the century, reflecting the fact that in three-dimensional space America and Asia are not only "next" to each other, but also "across" from each other.

# Protein consumption and wealth increase together.

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



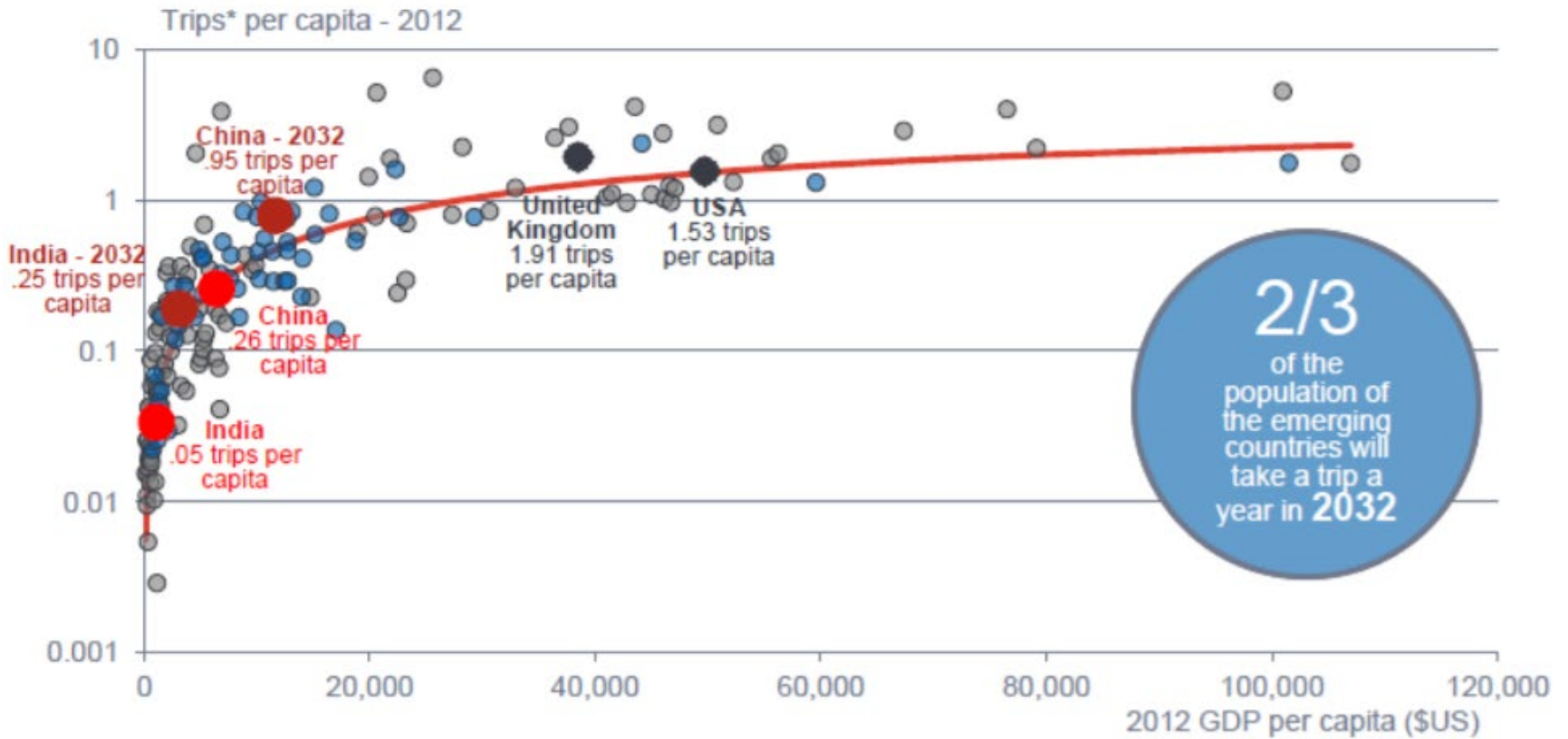
Data source: FAOstat; Penn World Table 9.0

OurWorldInData.org • CC BY-SA

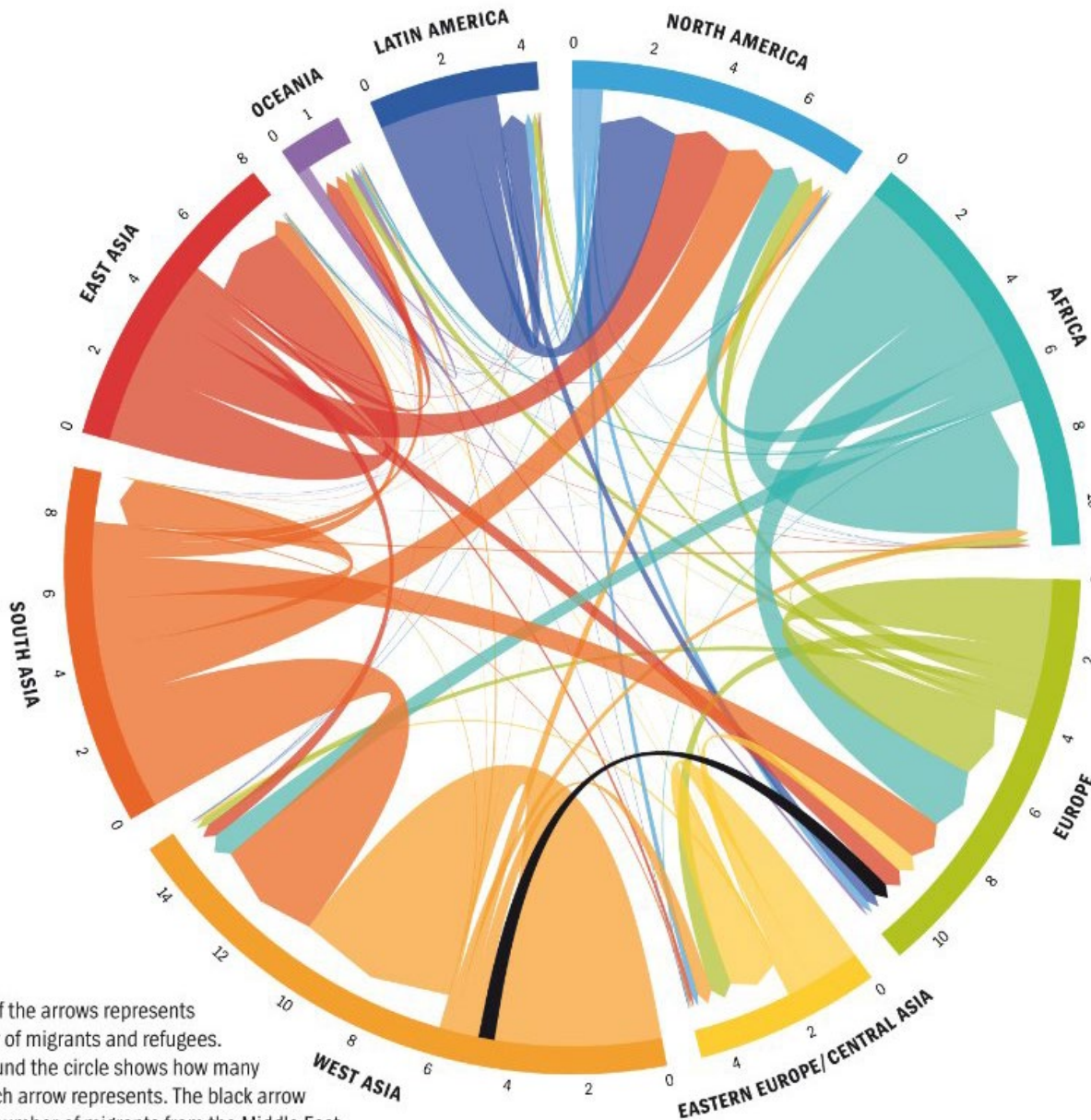
Note: Size of scatter bubble representative of population size

# Airline travel and wealth also move in line.

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



*“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 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.

**The US** attracts a vast array of migrants (Latin, Asian, African).

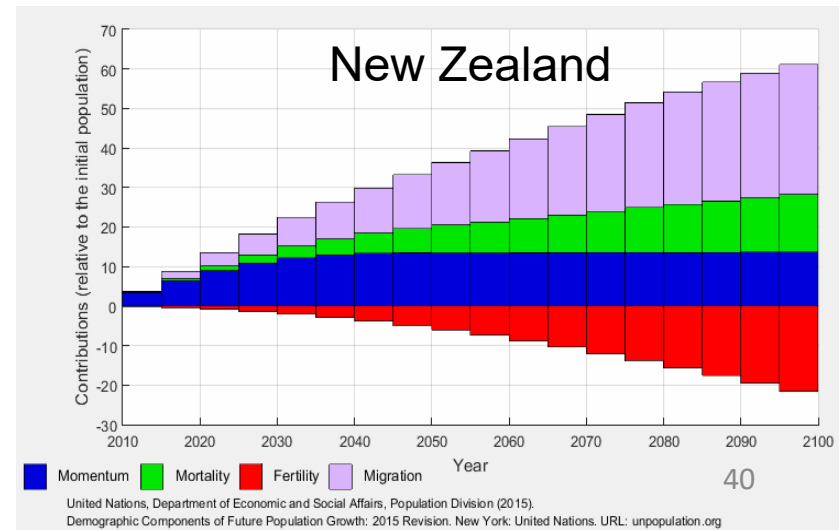
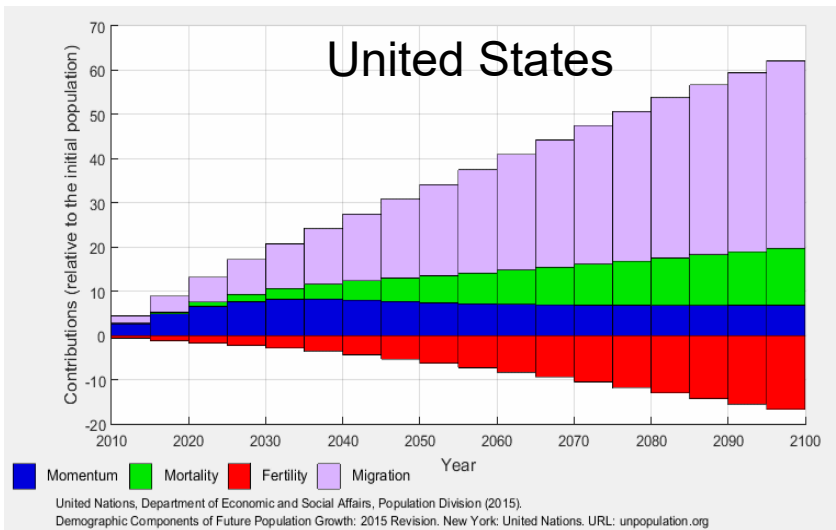
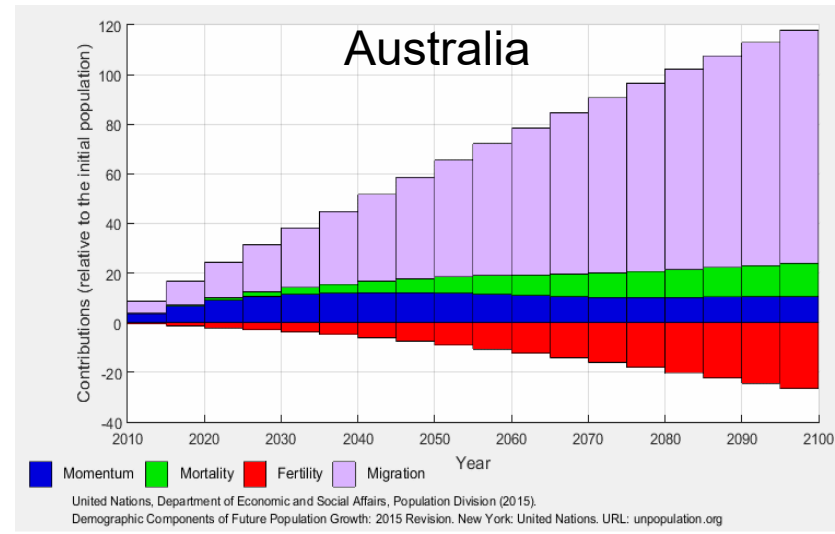
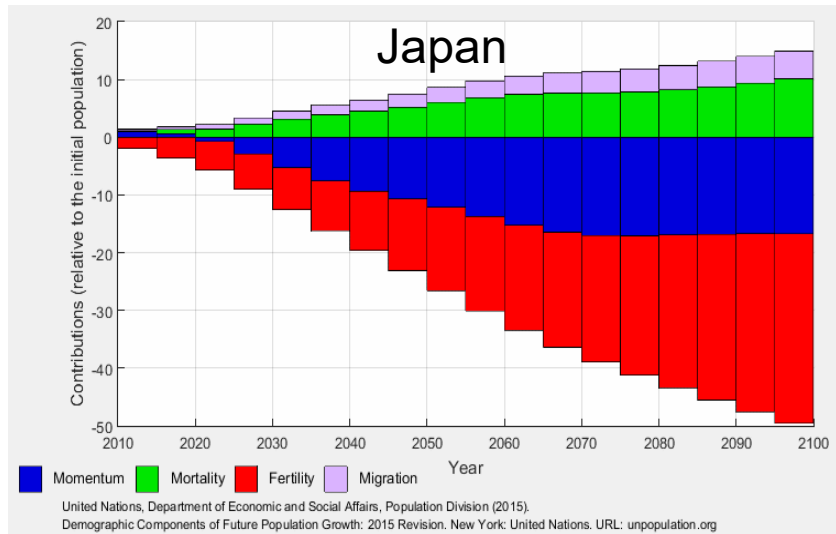
**The EU** also attracts many migrants from many nations (African, Asian).

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.

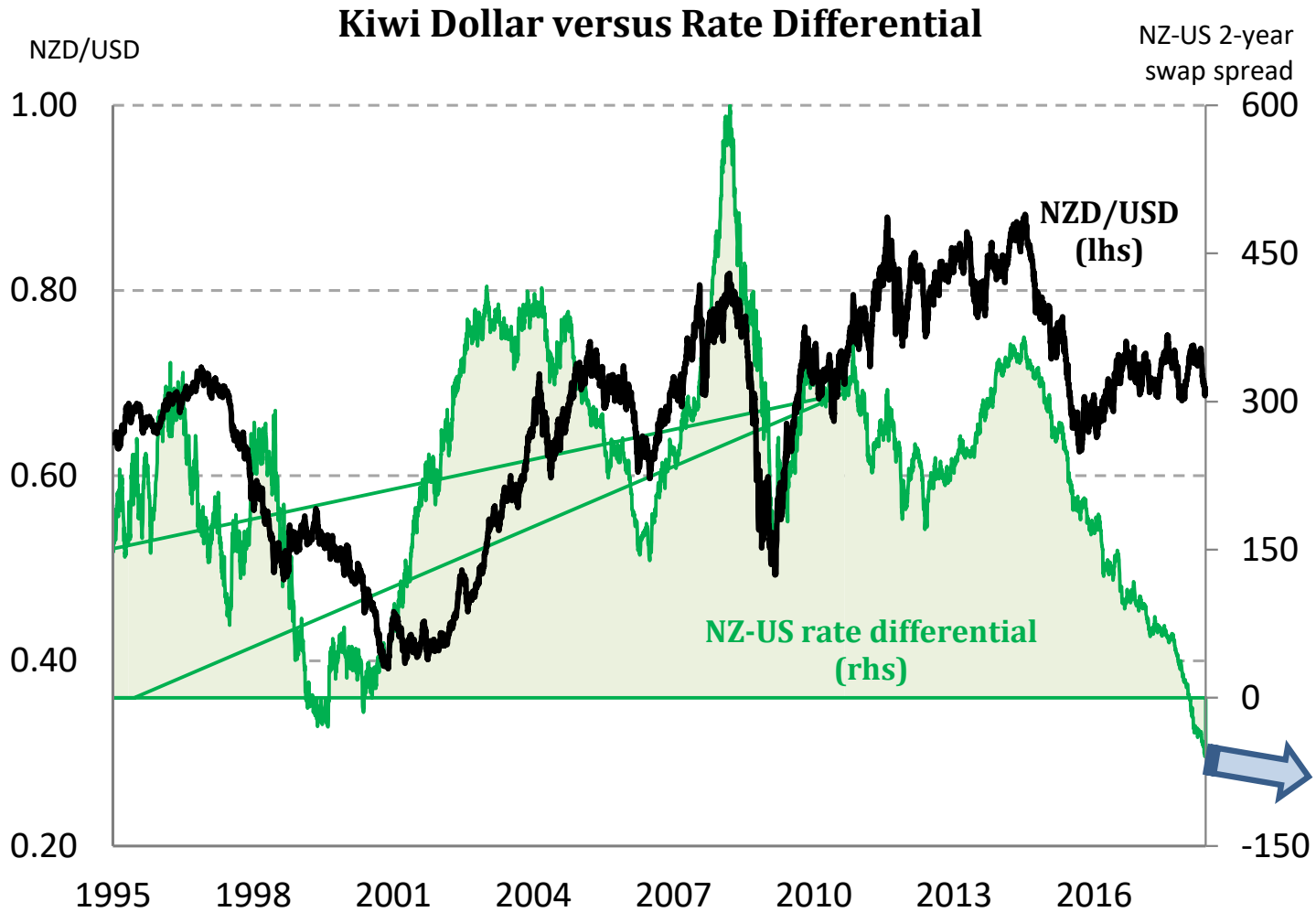
# Migration matters more than most metrics.

Contributions to population growth split by momentum, mortality, fertility and migration (purple).



# The Kiwi currency is key...

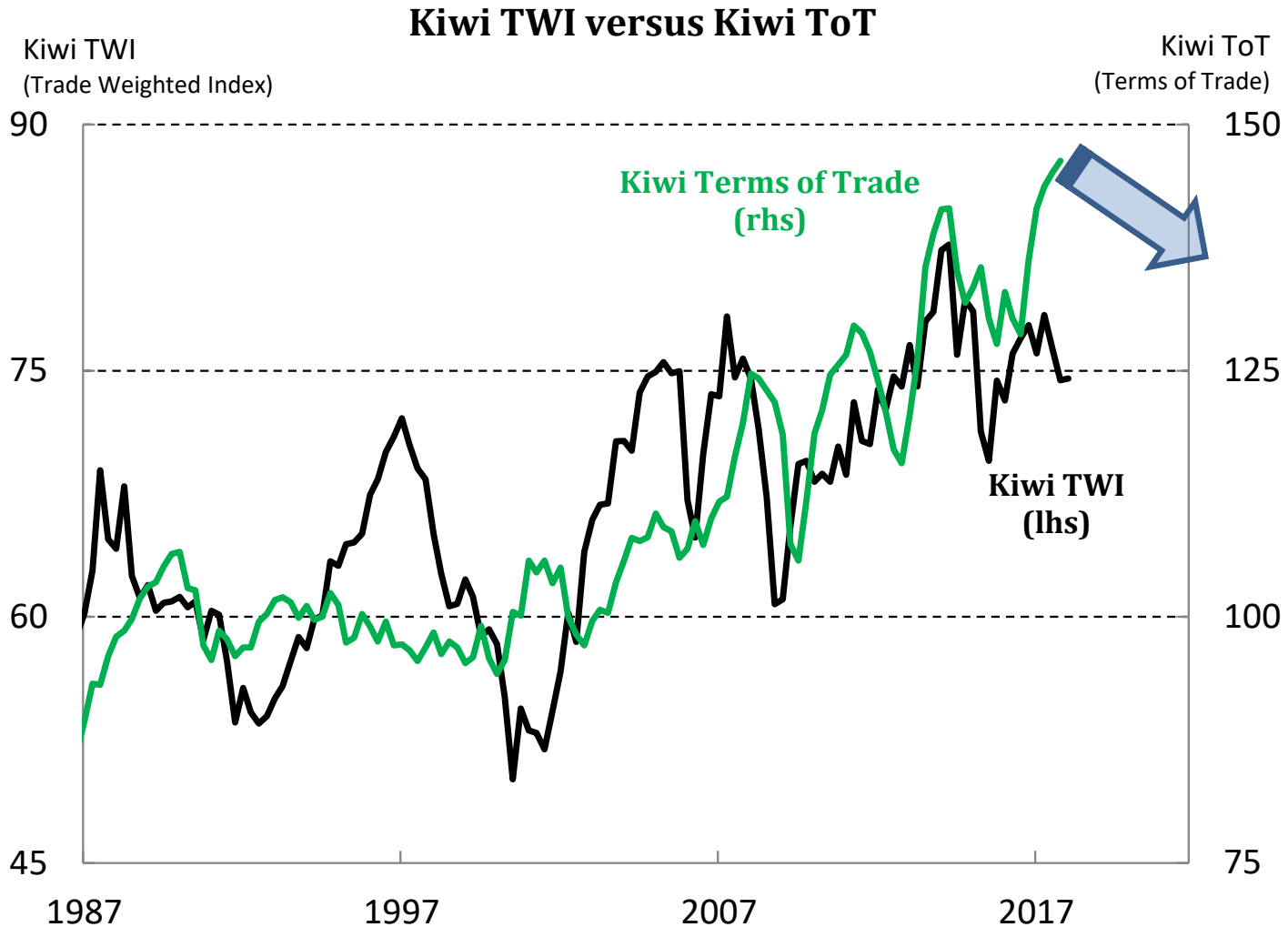
... to lifting tradables inflation and our exports.





# The Kiwi currency is key...

... to lifting tradables inflation and our exports.

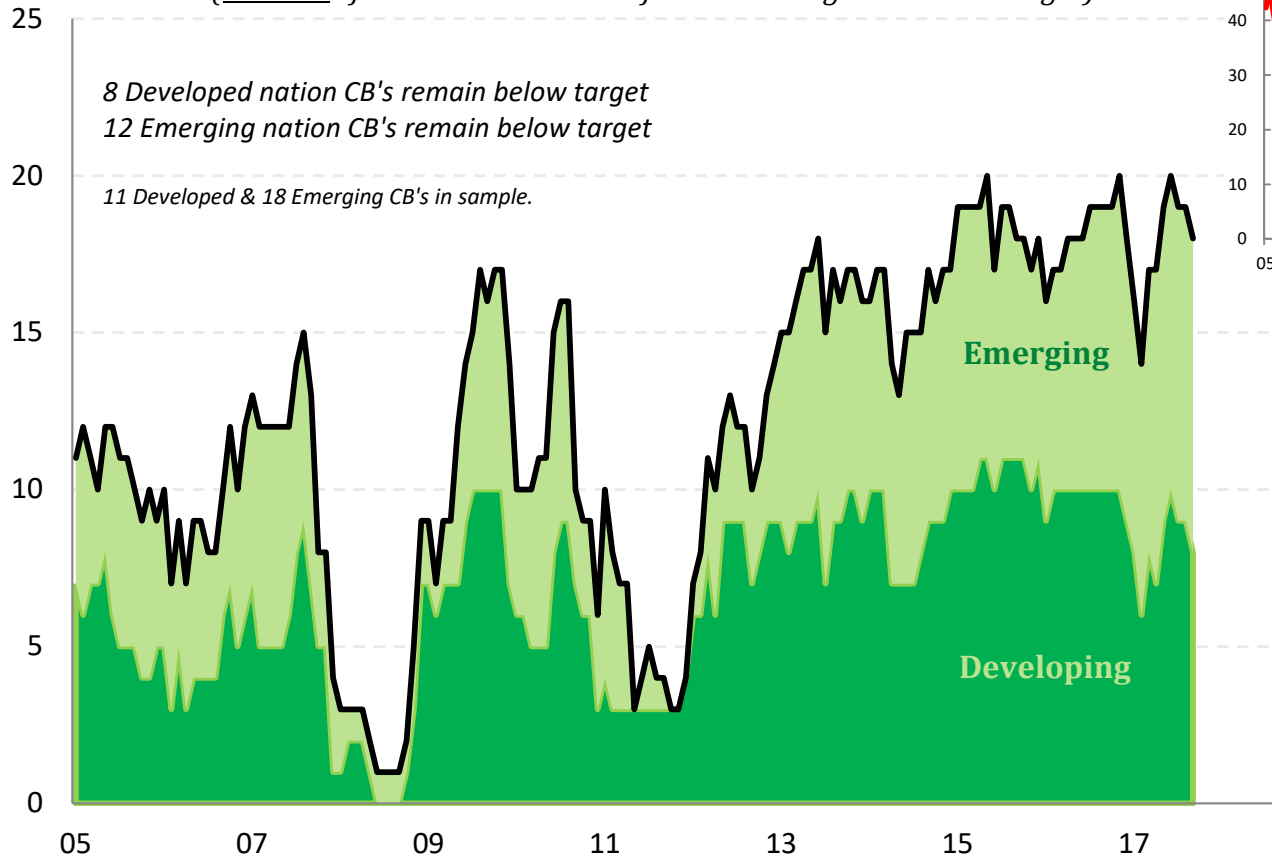


# Inflation has been beaten into submission.

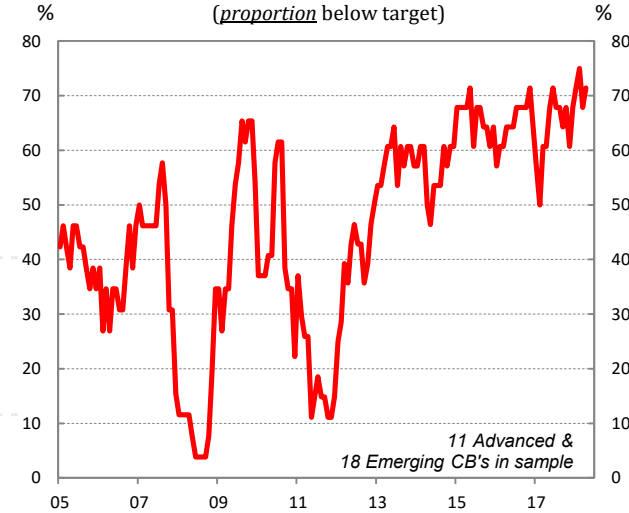
Now they want to revive the inflation beast.

## Inflation Targetting Is Harder Post-Crisis

*(Number of central banks with inflation running below their target)*

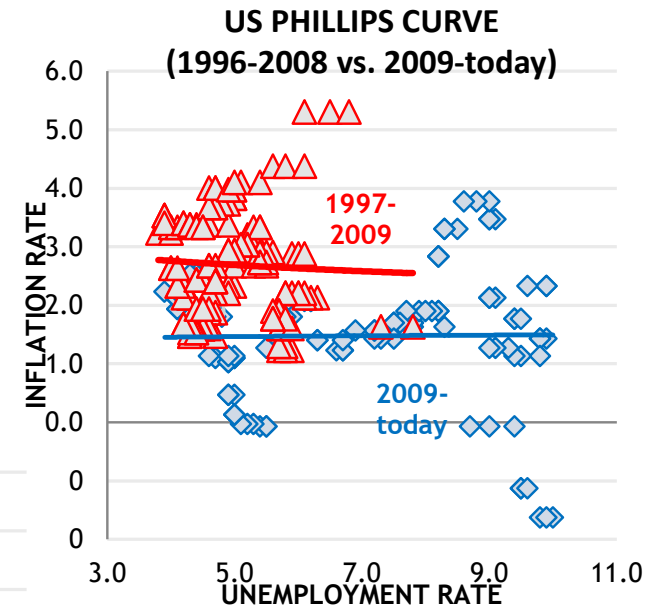
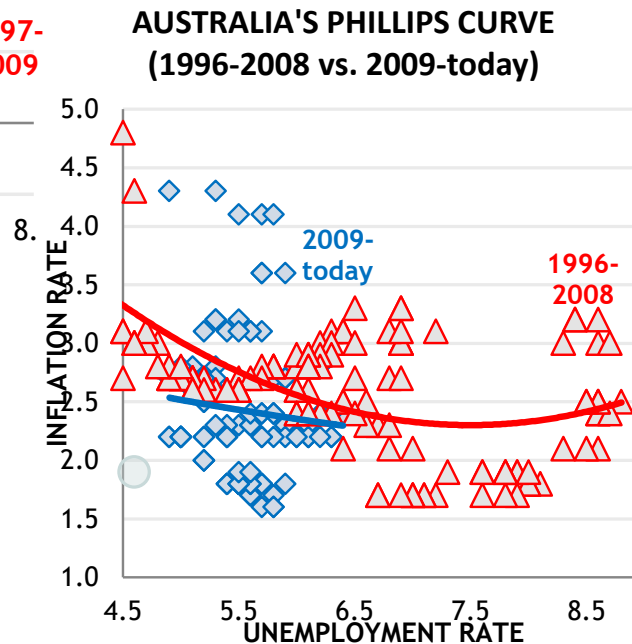
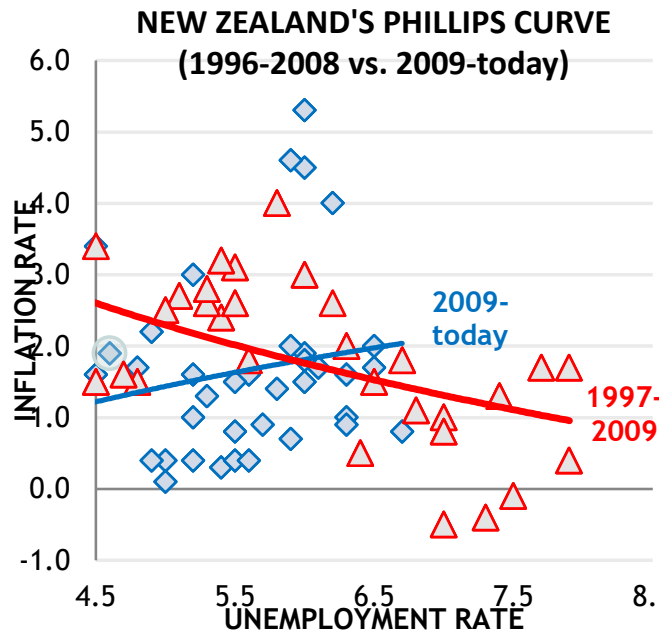


GLOBAL INFLATION TARGETTING  
*(proportion below target)*



# The Phillips curve, or dual mandate, is inverted...

... because underemployment persists, and global inflation remains low.



# Thank you and here's our disclaimer!

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