

Goldilocks and the 3 Bears



Solid growth, happy
consumers, busy builders,
ecstatic home owners and
keen double-cab ute
buyers. Three global bears
of Europe, ageing workers
and China's rebalancing

Stranger than fiction:
The truth of stubbornly low
global growth, deflation,
negative interest rates,
property booms, full bars,
slower trade growth &
‘Helicopter Money’

An Indian summer:
Global deflationary
headwinds gather, but
Auckland, Queenstown,
consumption, construction
and tourism are strong.

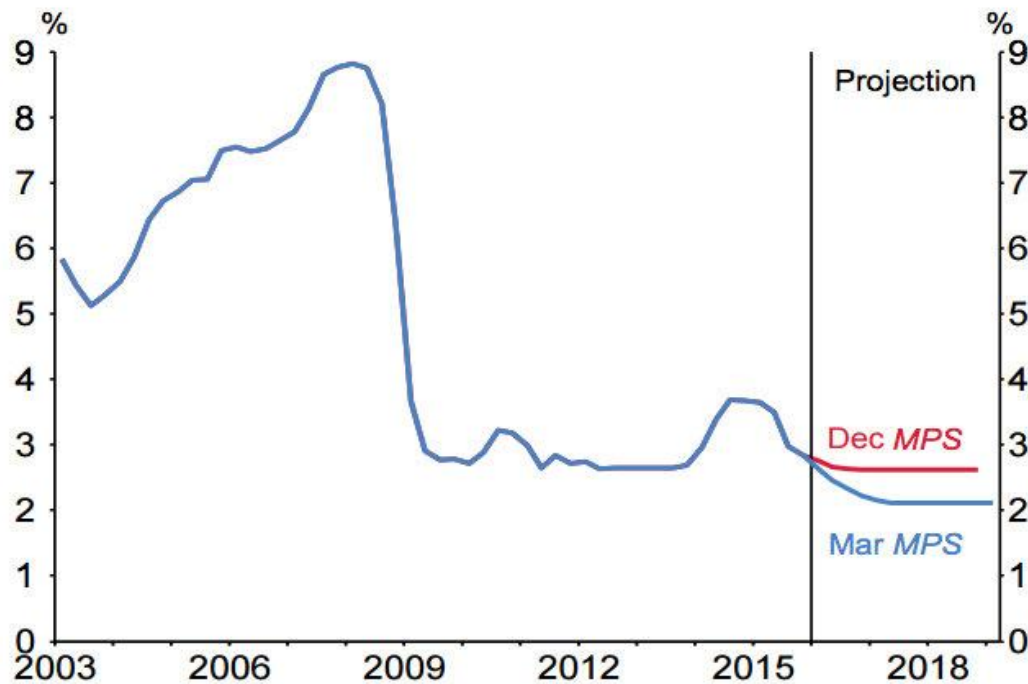
Expect another OCR
zap & lots of concrete
RBNZ set to cut again and
the Government is opening
its infrastructure purse
strings in Auckland

Global trade growth
slower since 2008
Global structural forces of
ageing populations, tech
change and China
rebalancing are factors

- 3% growth + no inflation
- RBNZ to cut OCR to 1.75%
- Auckland's housing inflation slow-down was only temporary
- The dairy shock still matters
- So does tourism & construction
- China's slowdown is a thing
- What it all means for NZ's economies & property markets

The RBNZ plans to cut again

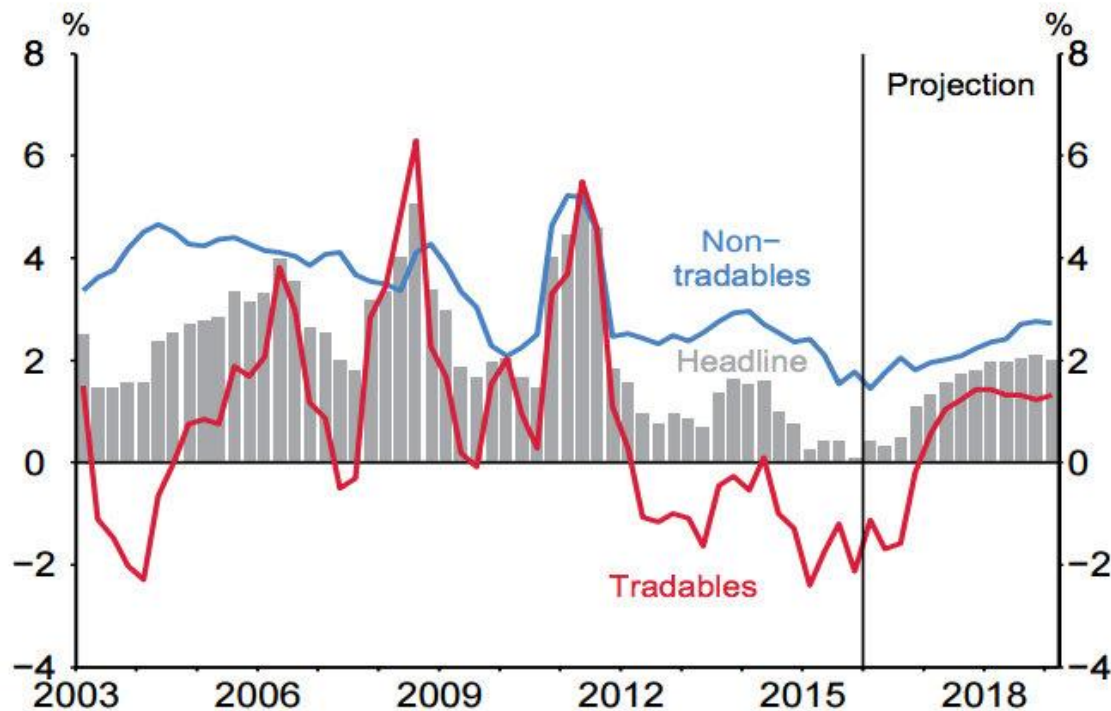
Figure 2.3
90-day interest rate



Source: RBNZ estimates.

But it should be even more

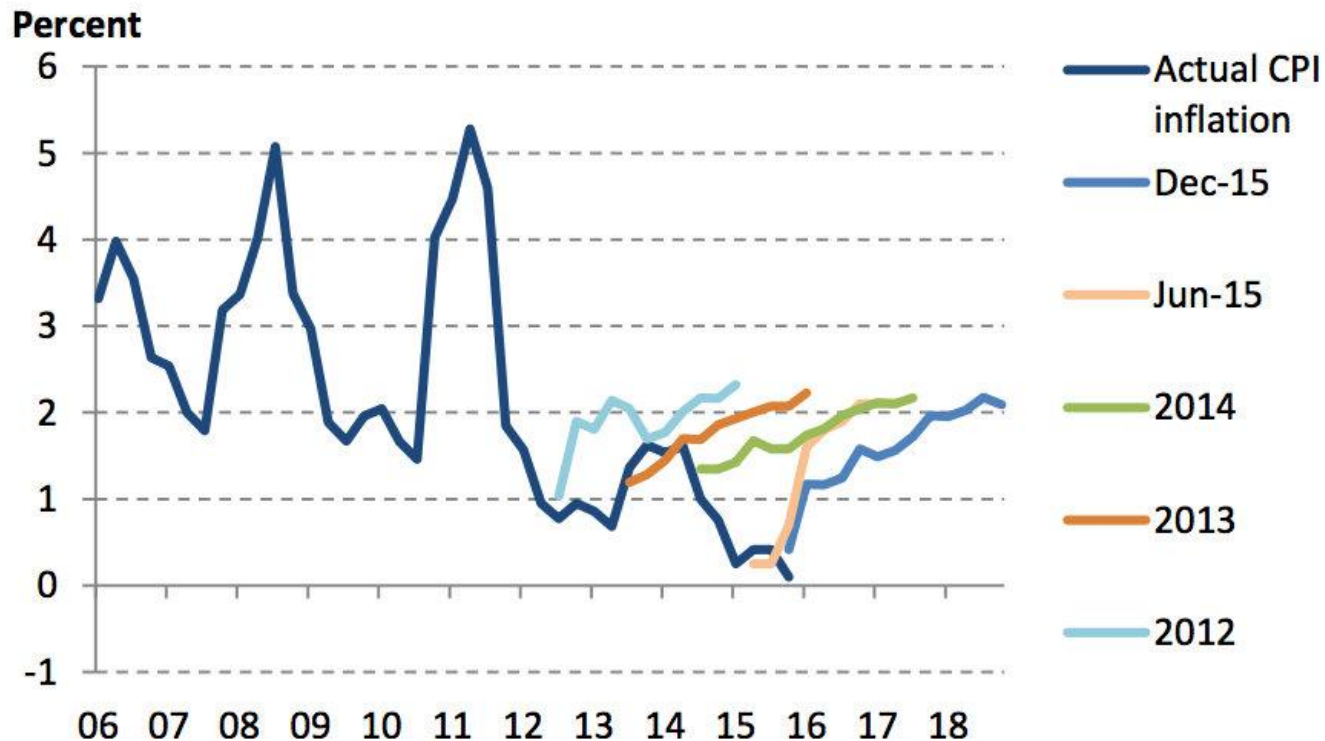
Figure 2.4
CPI inflation
(annual)



Source: Statistics New Zealand, RBNZ estimates.

Wrong for this long

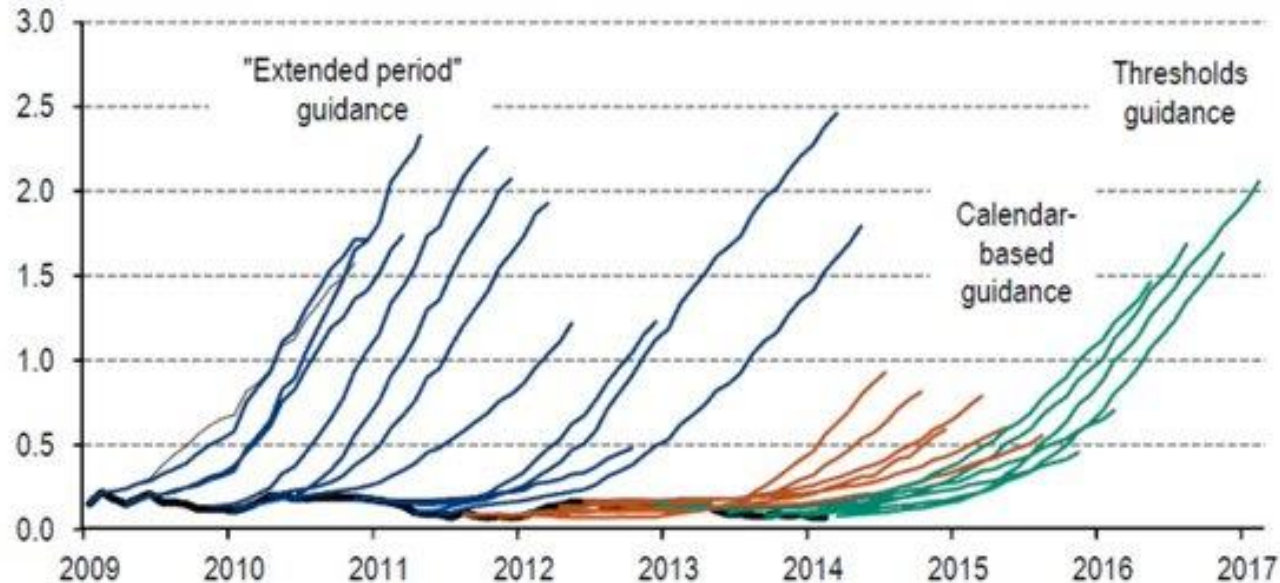
Chart 2. NZ CPI inflation and RBNZ forecasts



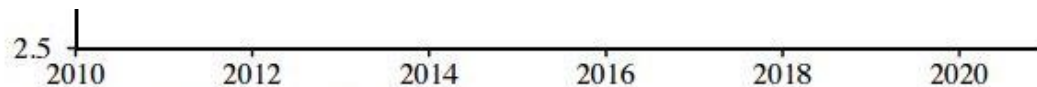
Source: RBNZ and Statistics New Zealand.

But not the only ones

Chart 1: Various stages of Fed forward guidance (% fed funds futures)



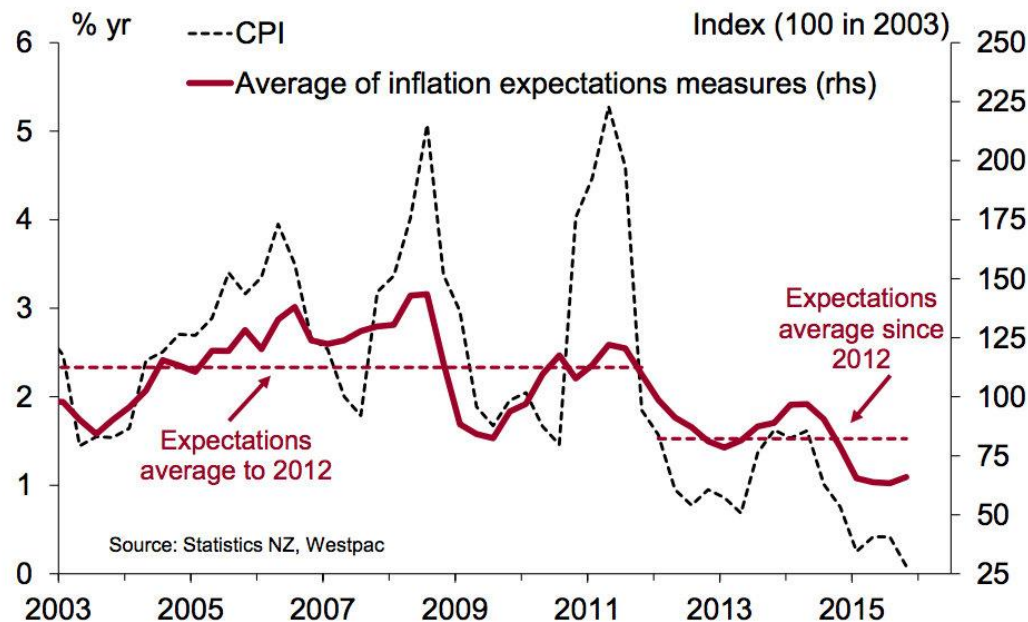
Source: BofA Merrill Lynch Global Research, Bloomberg, Federal Reserve Board



Source: International Monetary Fund (IMF).

Inflation is dead, dead, dead

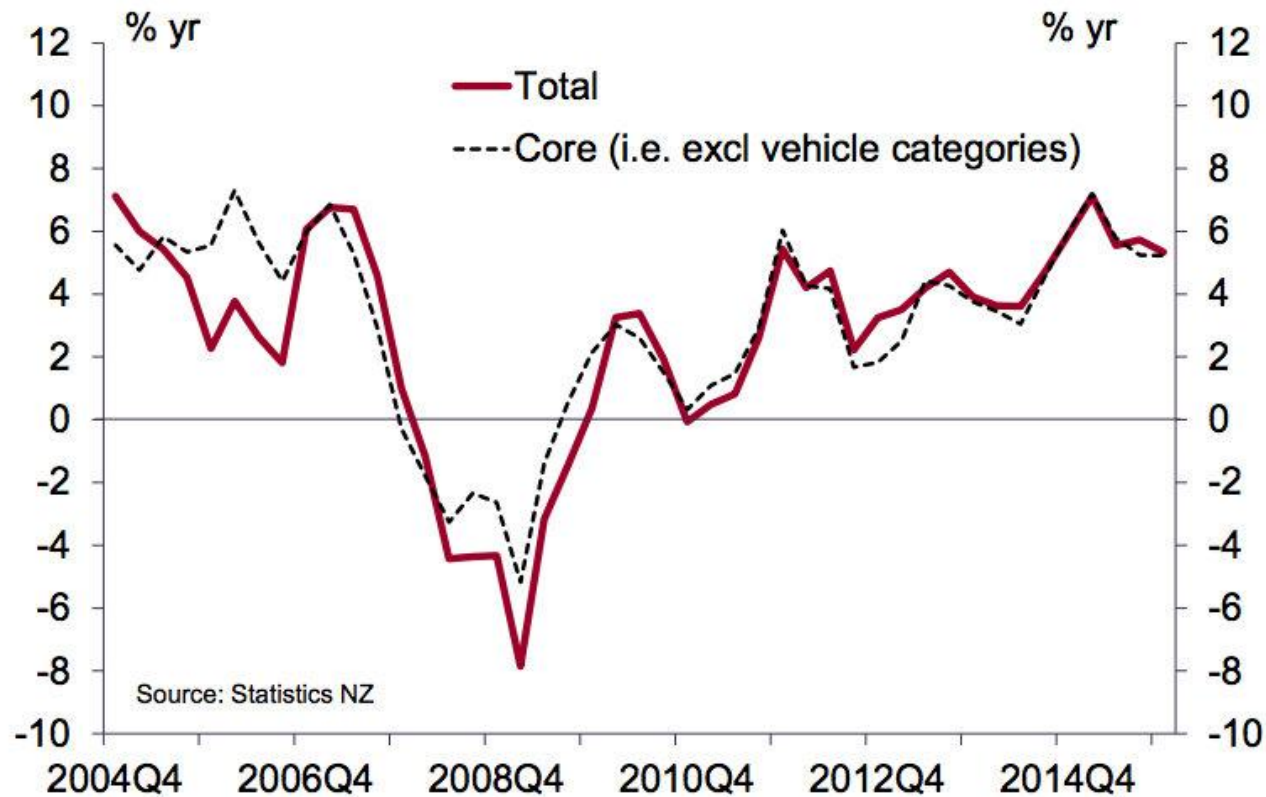
Figure 14: Consumer price inflation and inflation expectations



Note: The “Average of inflation expectations measures” is an index that combines 10 survey measures of expected inflation, wages, prices and costs.

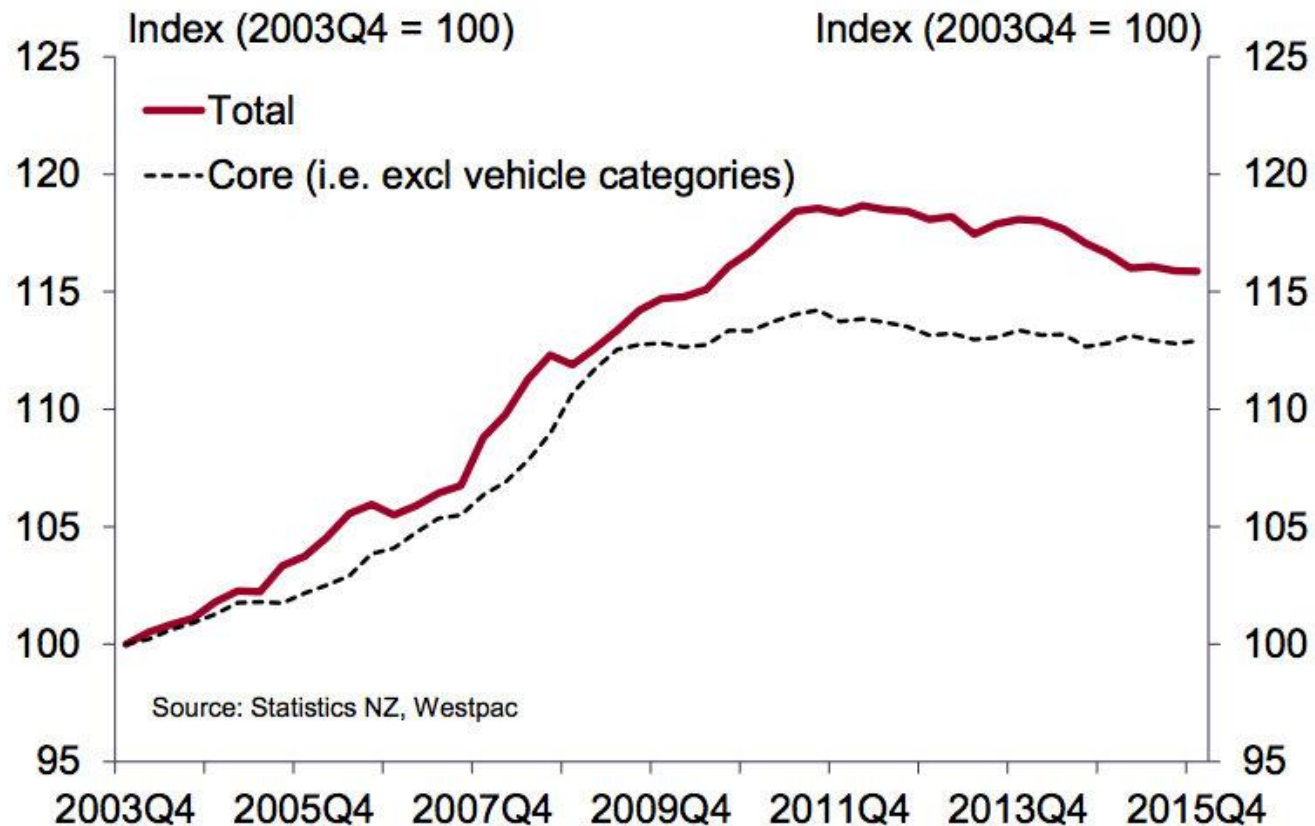
Real consumption growth

Retail sales

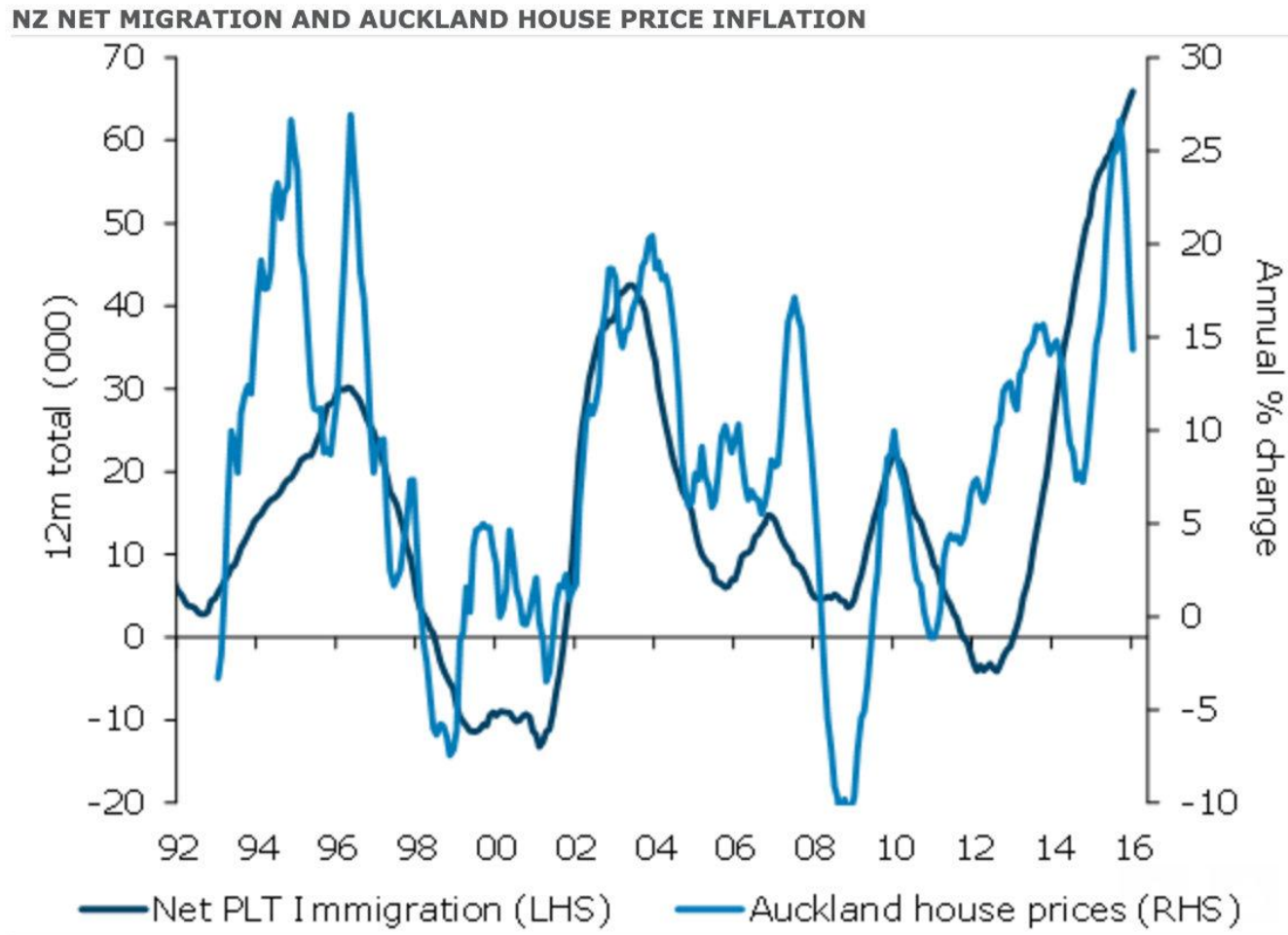


Real price deflation

Retail prices



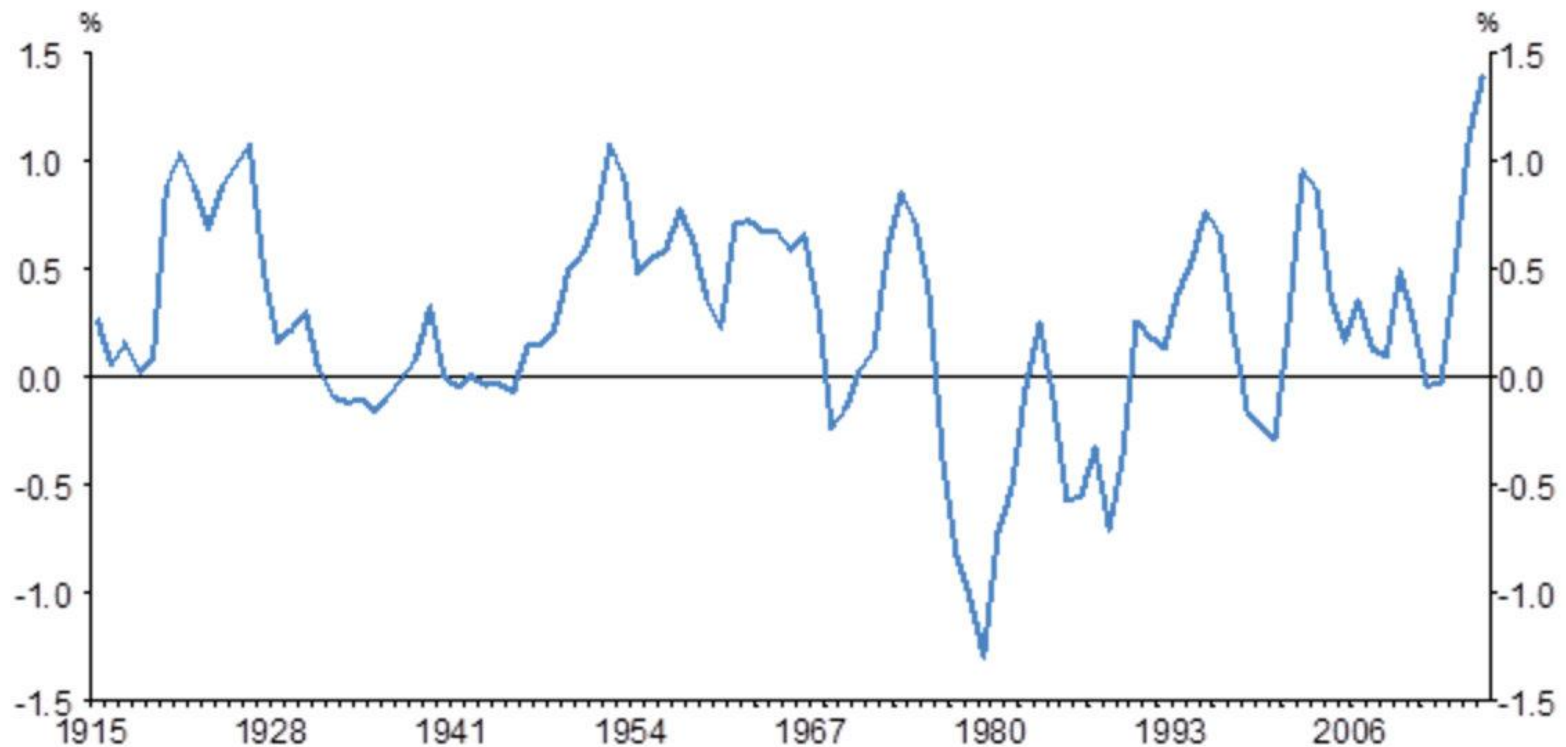
Migrants still coming in droves



Source: REINZ, Statistics NZ, ANZ Research

Migration at a 100 year high

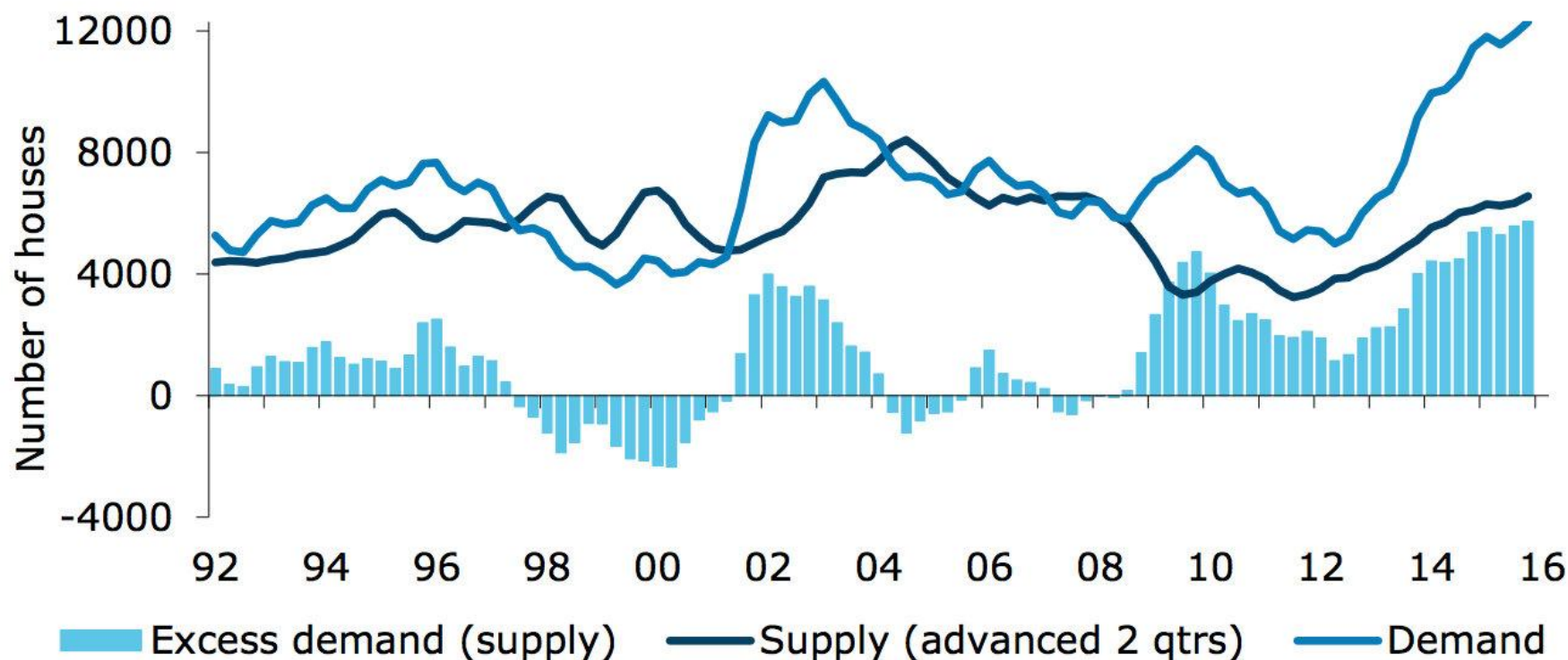
Figure 4: Net permanent and long-term immigration as a share of total population



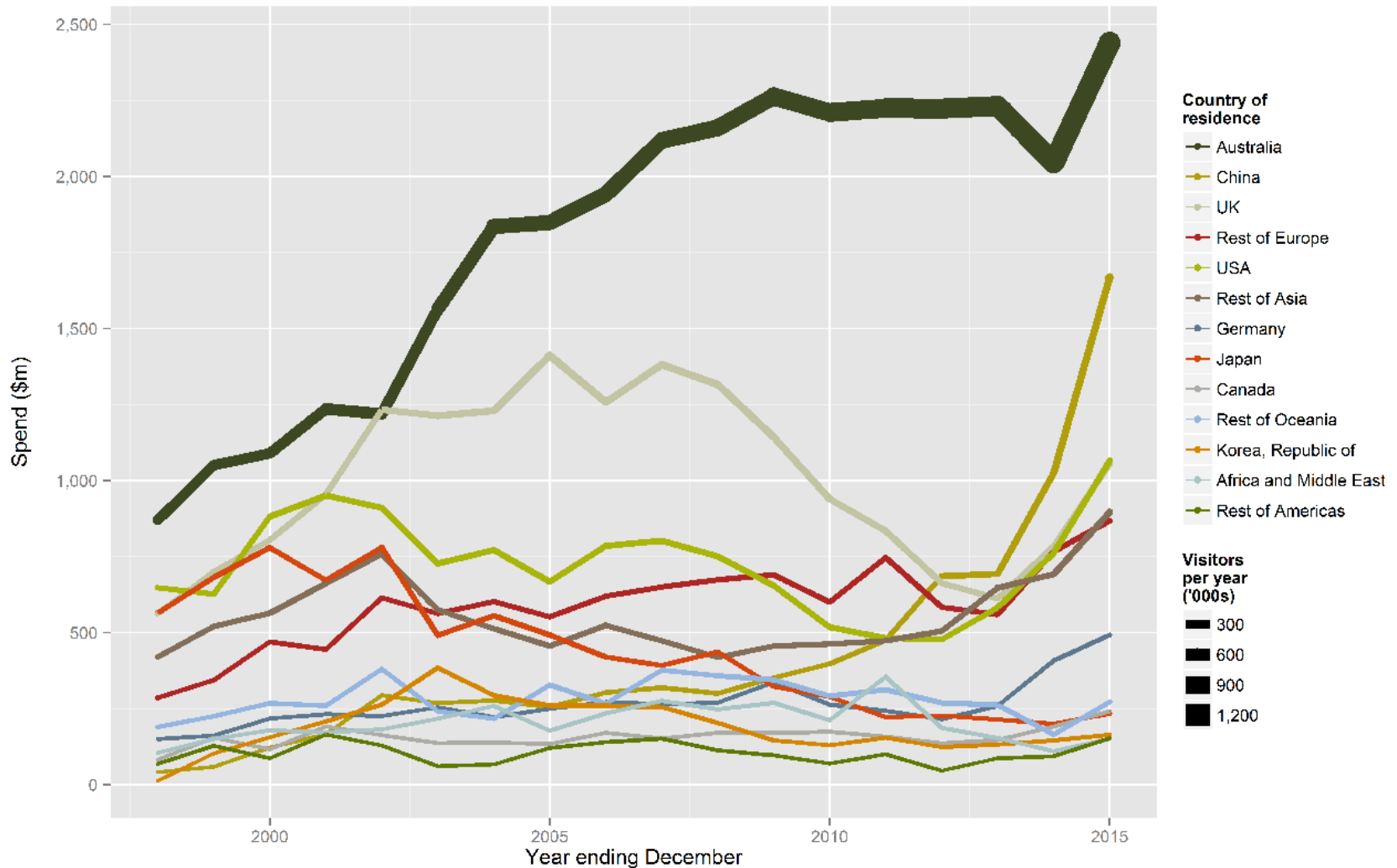
Source: Statistics New Zealand.

Still not building enough

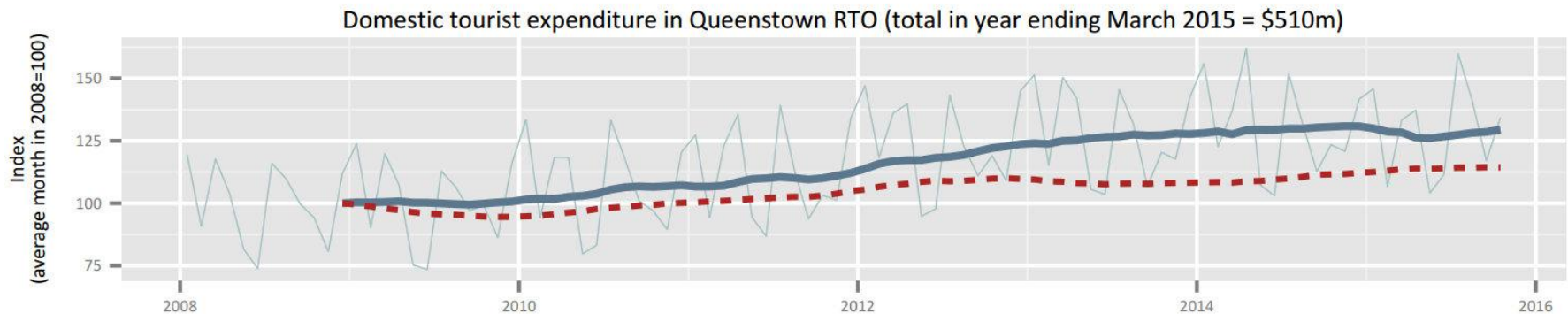
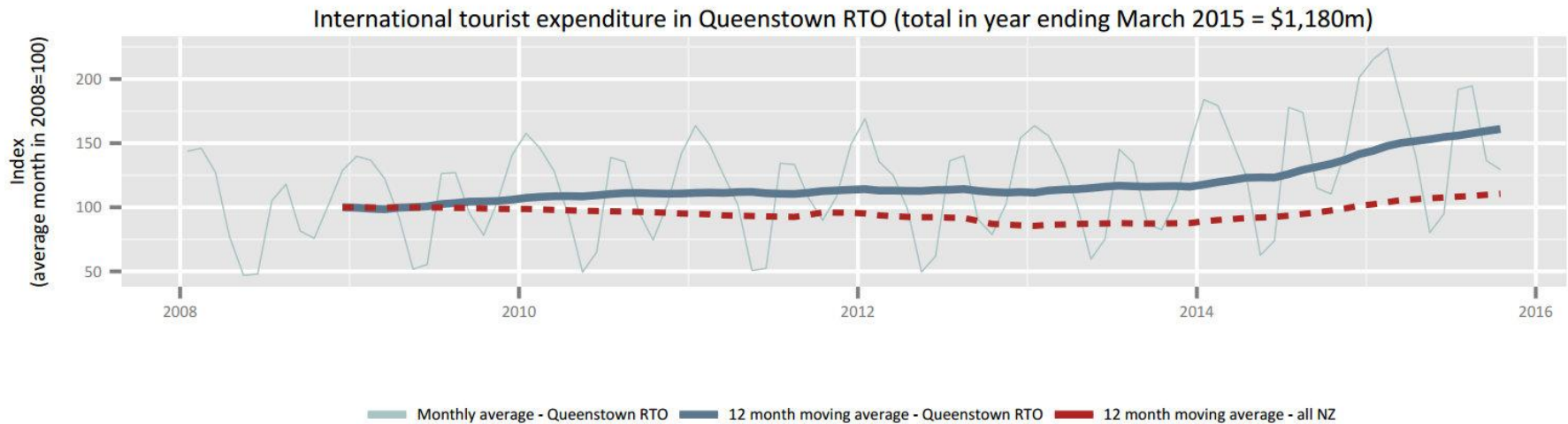
FIGURE 5: HOUSING SUPPLY-DEMAND BALANCE



A record summer for tourism



Queenstown the star of NZ



China is switching

China key activity indicators

Annual % change, monthly



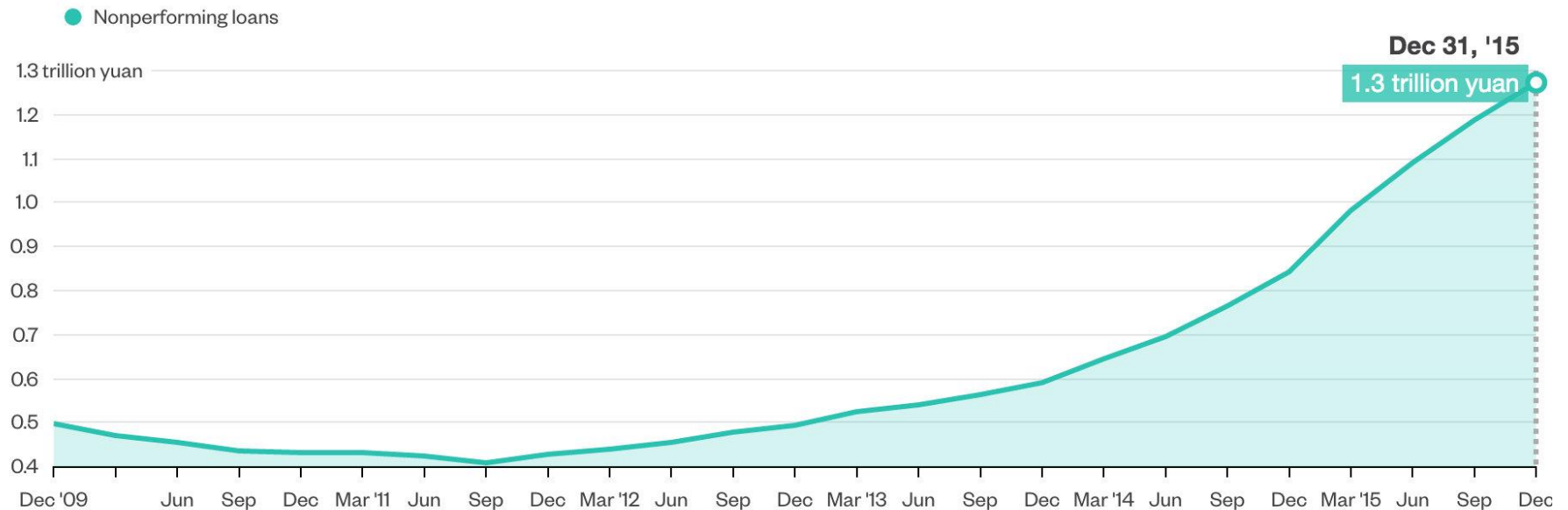
Sources: National Bureau of Statistics; CEIC

FT

Keep an eye on debt

Big Bad Debt Problem

Soured loans in China reached 1.27 trillion yuan in December, so there may be a lot more ABS backed by such debt



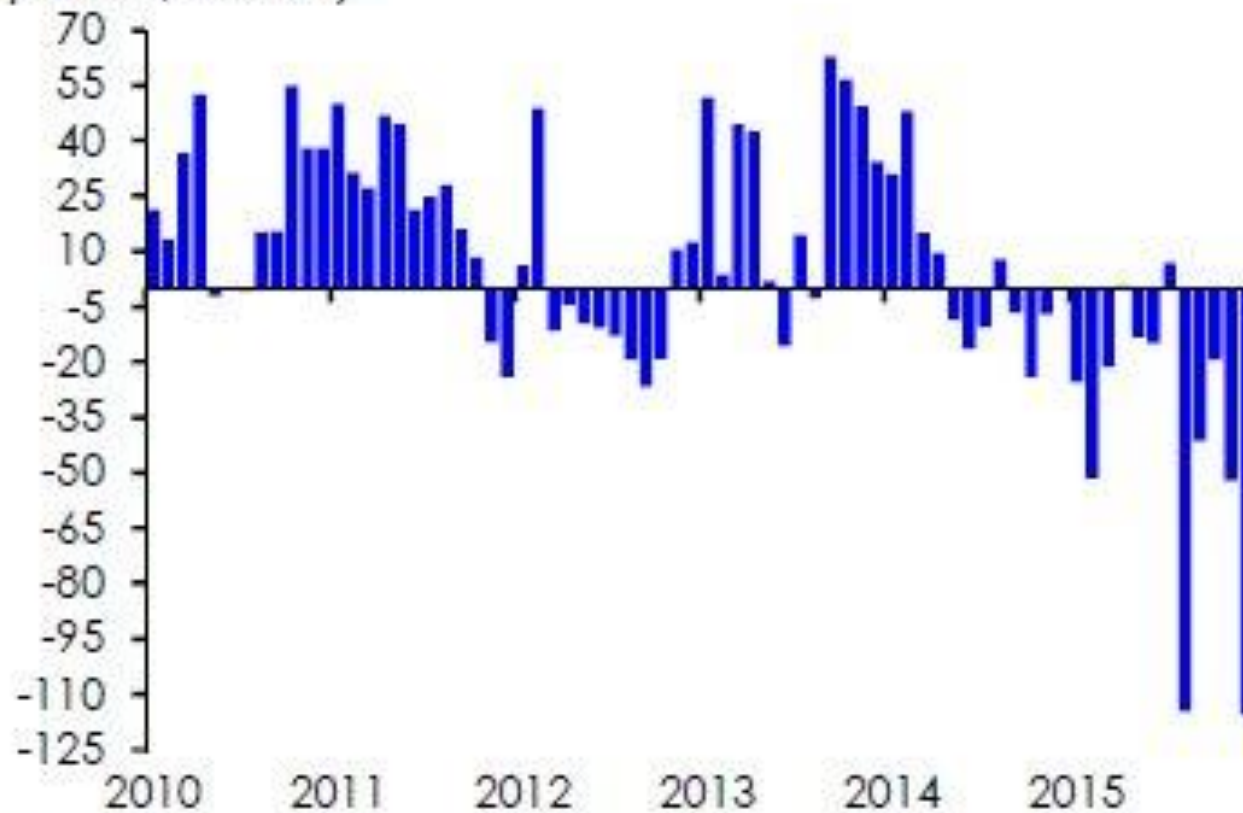
Source: China Banking Regulatory Commission

And capital flows

Chart 40

IIF China (Net) Capital Flows Tracker

\$ billion, monthly

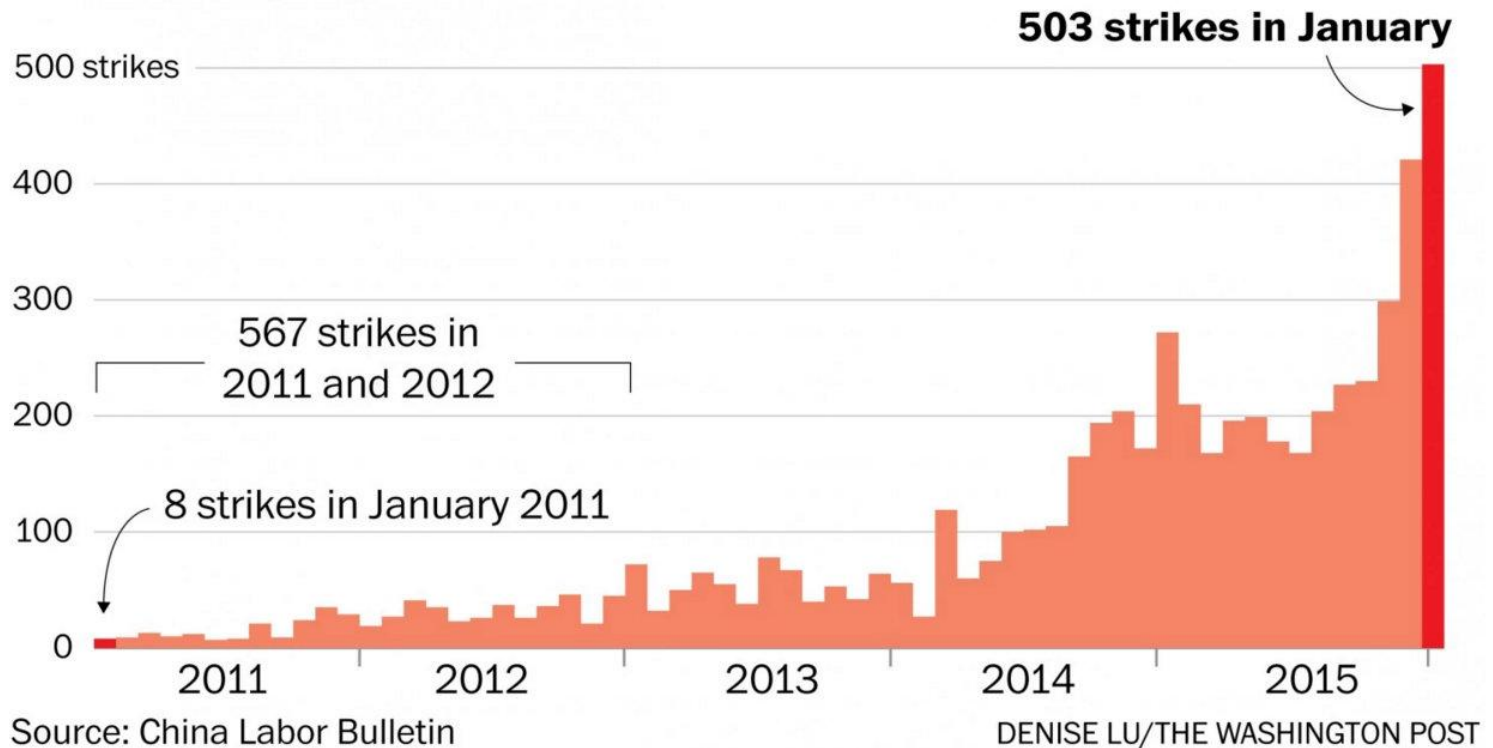


Source: IIF.

And social unrest

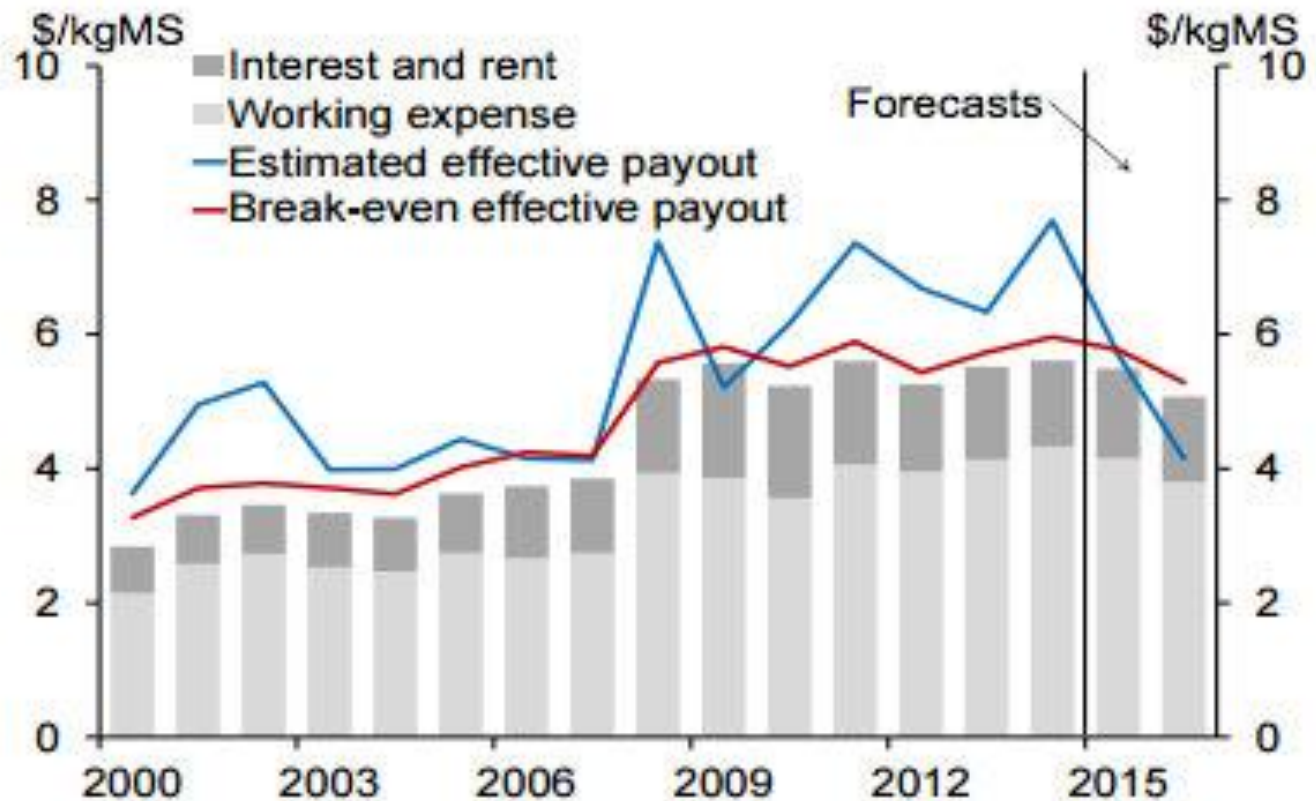
Strikes across China have increased in recent months

The instances of reported strikes in January nearly reached the total for 2011 and 2012 combined.



Three years of dairy losses

Figure 2.3
Actual and
break-even
dairy payout

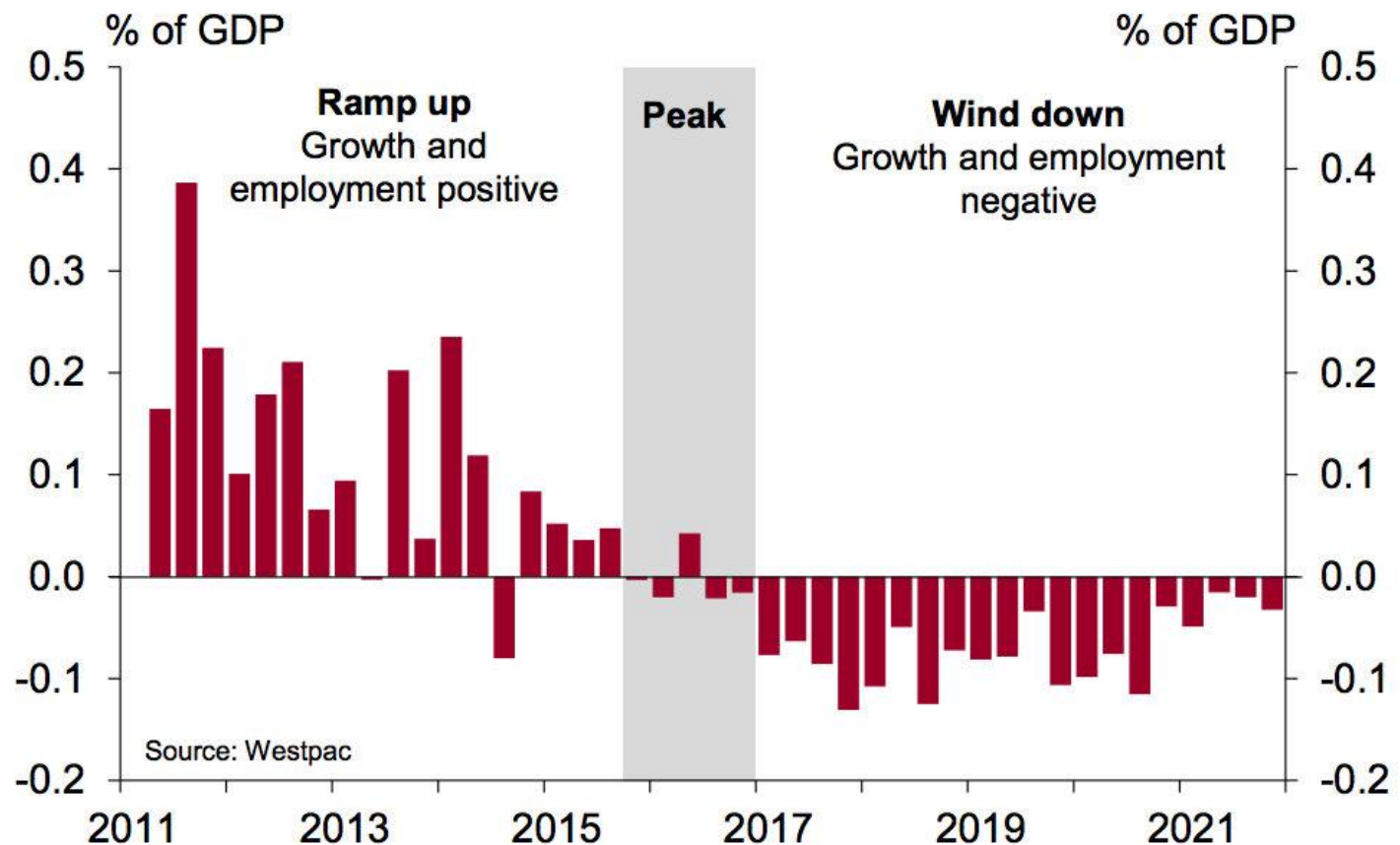


Source: DairyNZ, Fonterra.

Note: Effective payout is an estimate of milk revenue for the season, based on DairyNZ survey data. The break-even payout is working expenses plus interest and rent costs plus drawings, adjusted for livestock revenue. Forecasts are from DairyNZ.

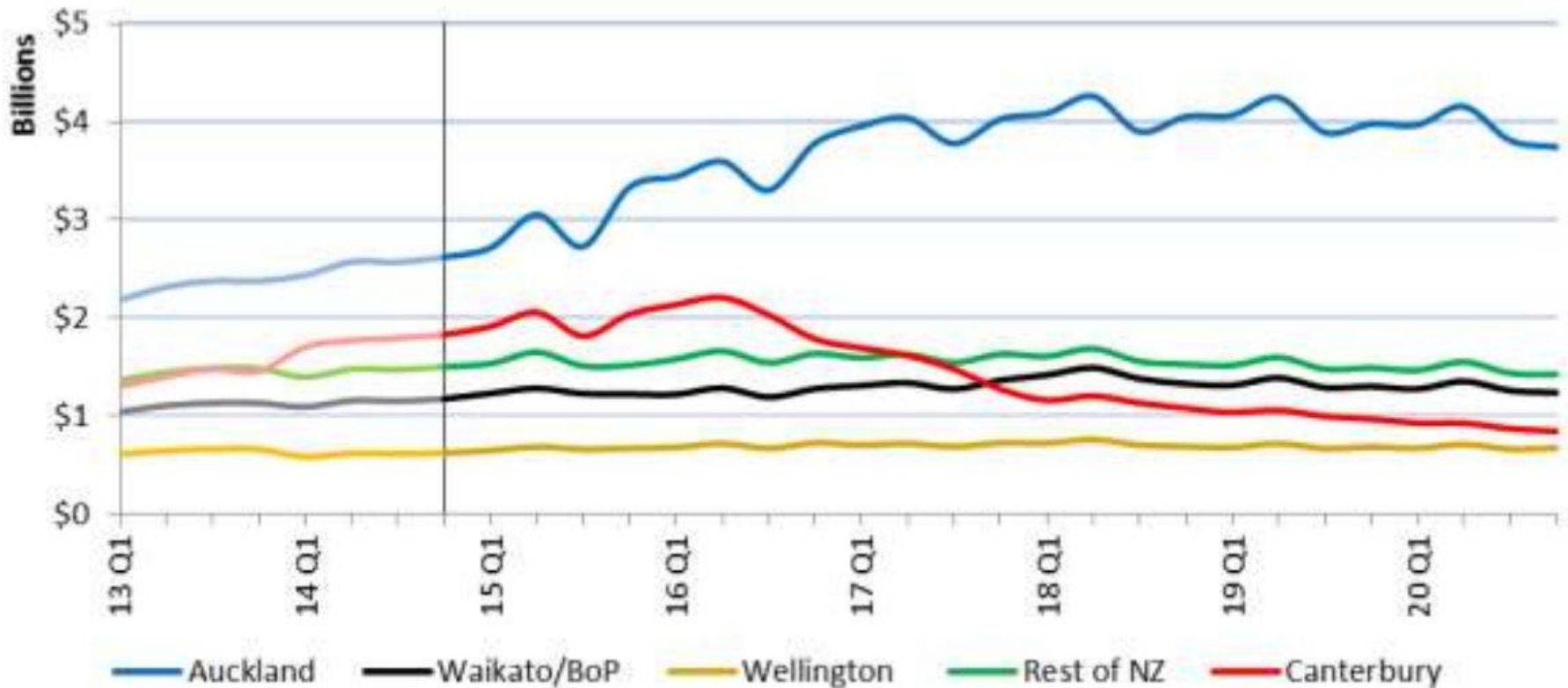
Canterbury is peaking

Figure 3: Quarterly change in rebuild spending



Auckland is not

Figure 20 - Value of all building and construction by region (by quarter)



Source: BRANZ/Pacifecon

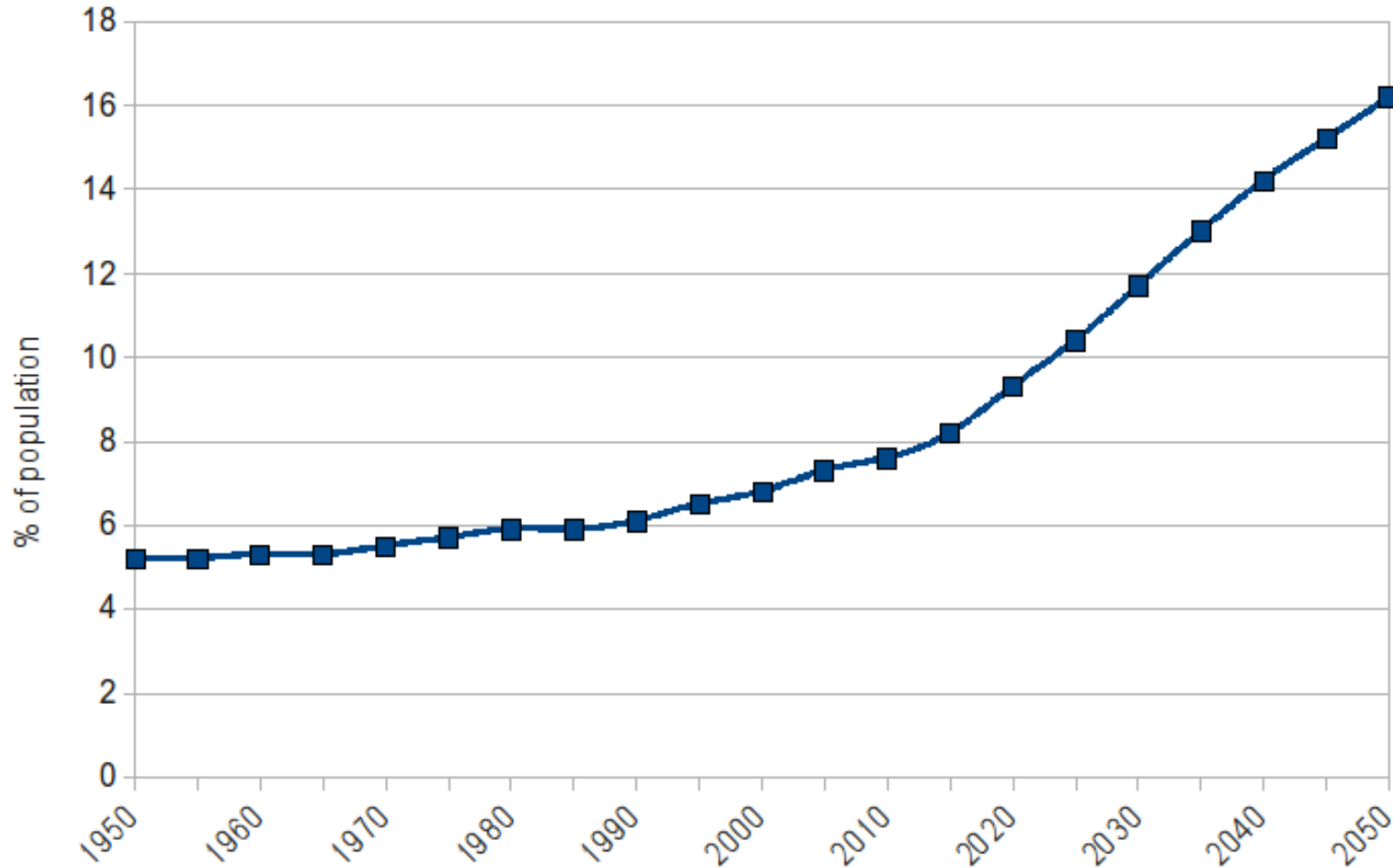
WTF is going on?

Ageing populations, new technology, endemic fear, bad politics, a lot of debt for some & too much saving are suppressing global growth & inflation (but not much here).

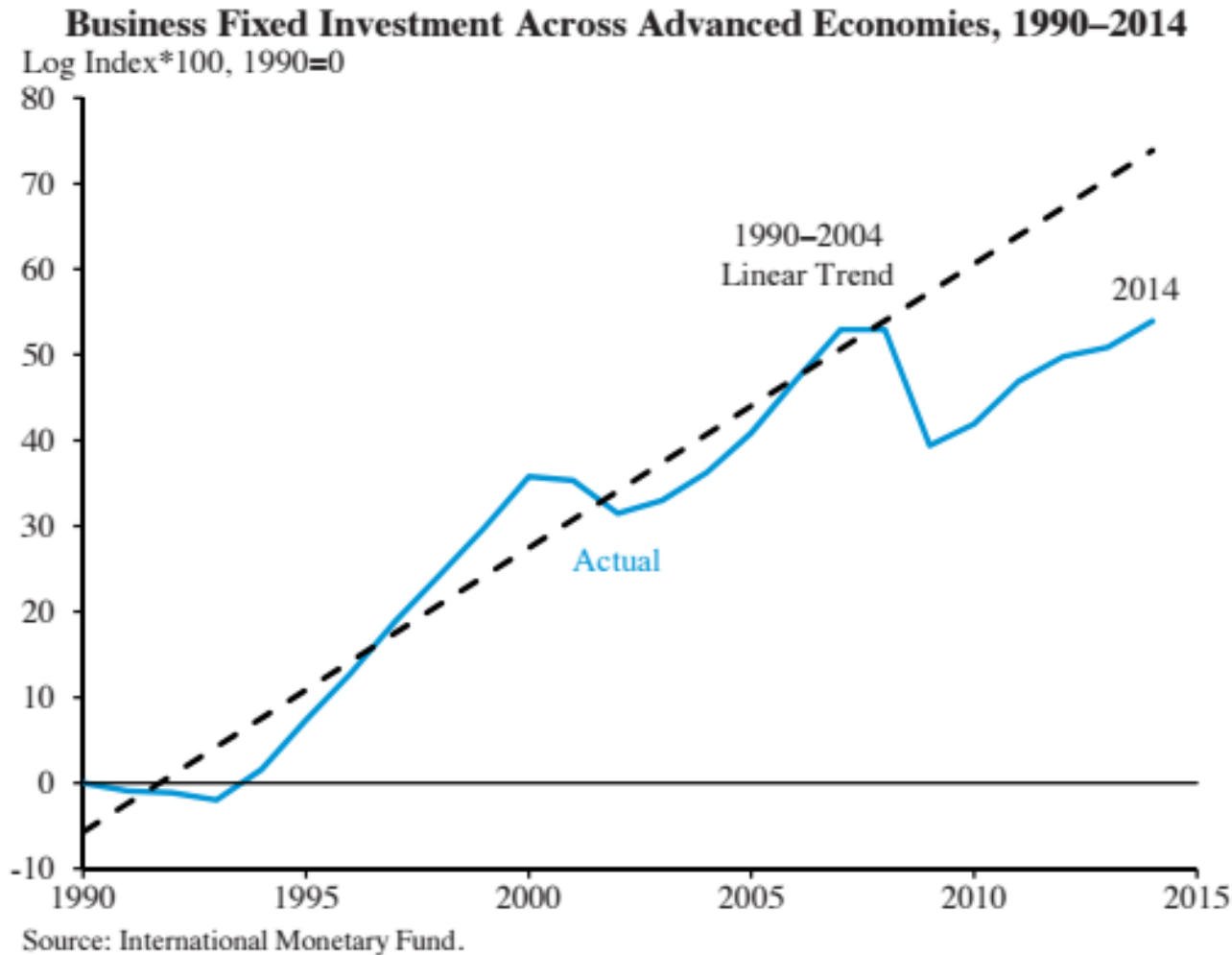
Spending less, saving more

Percentage of the World Population Over 65, 1950-2050

Source: UN World Population Prospect, 2008



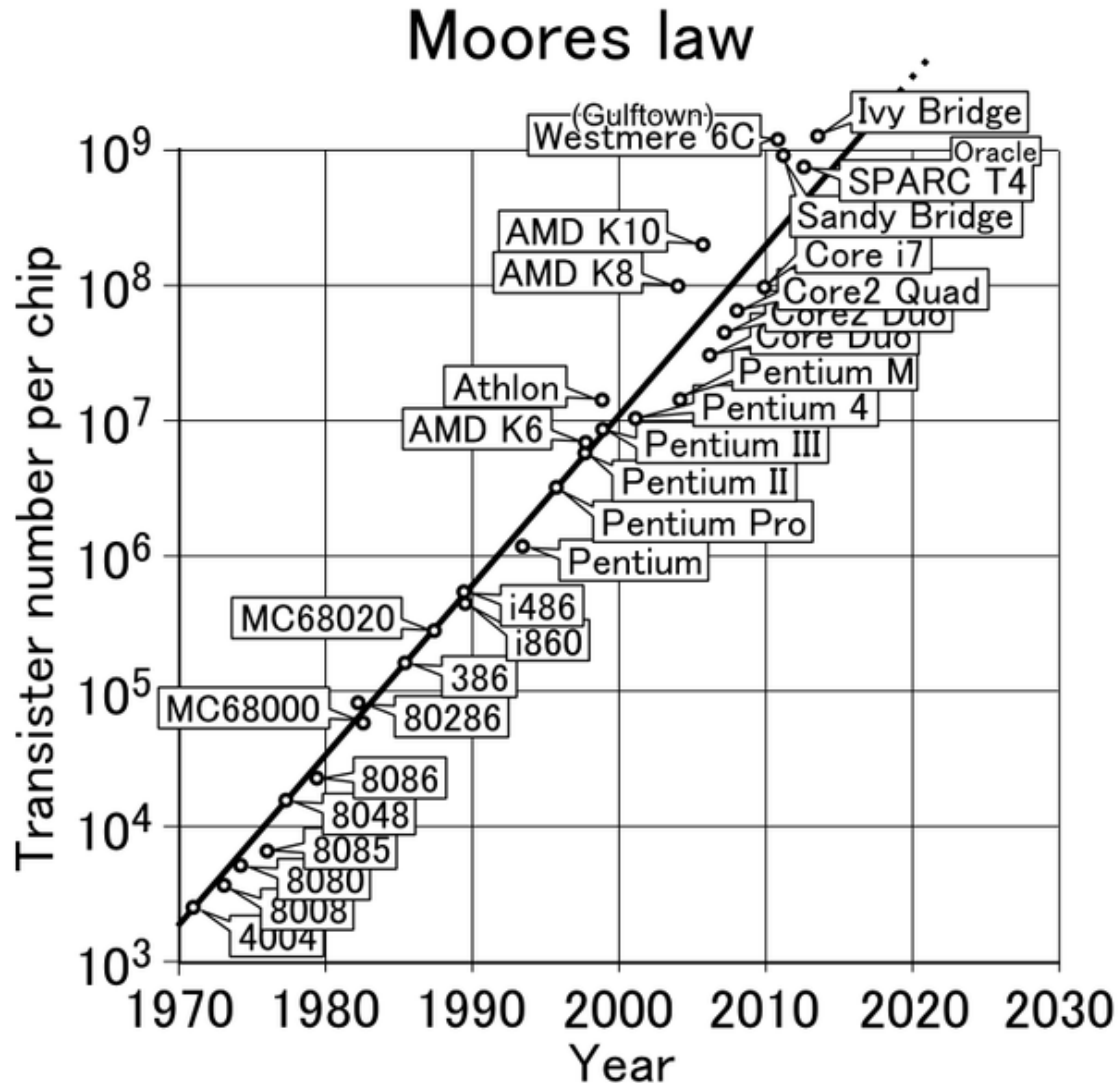
Investing less, saving more



Moore's law



Moore's law turns 50

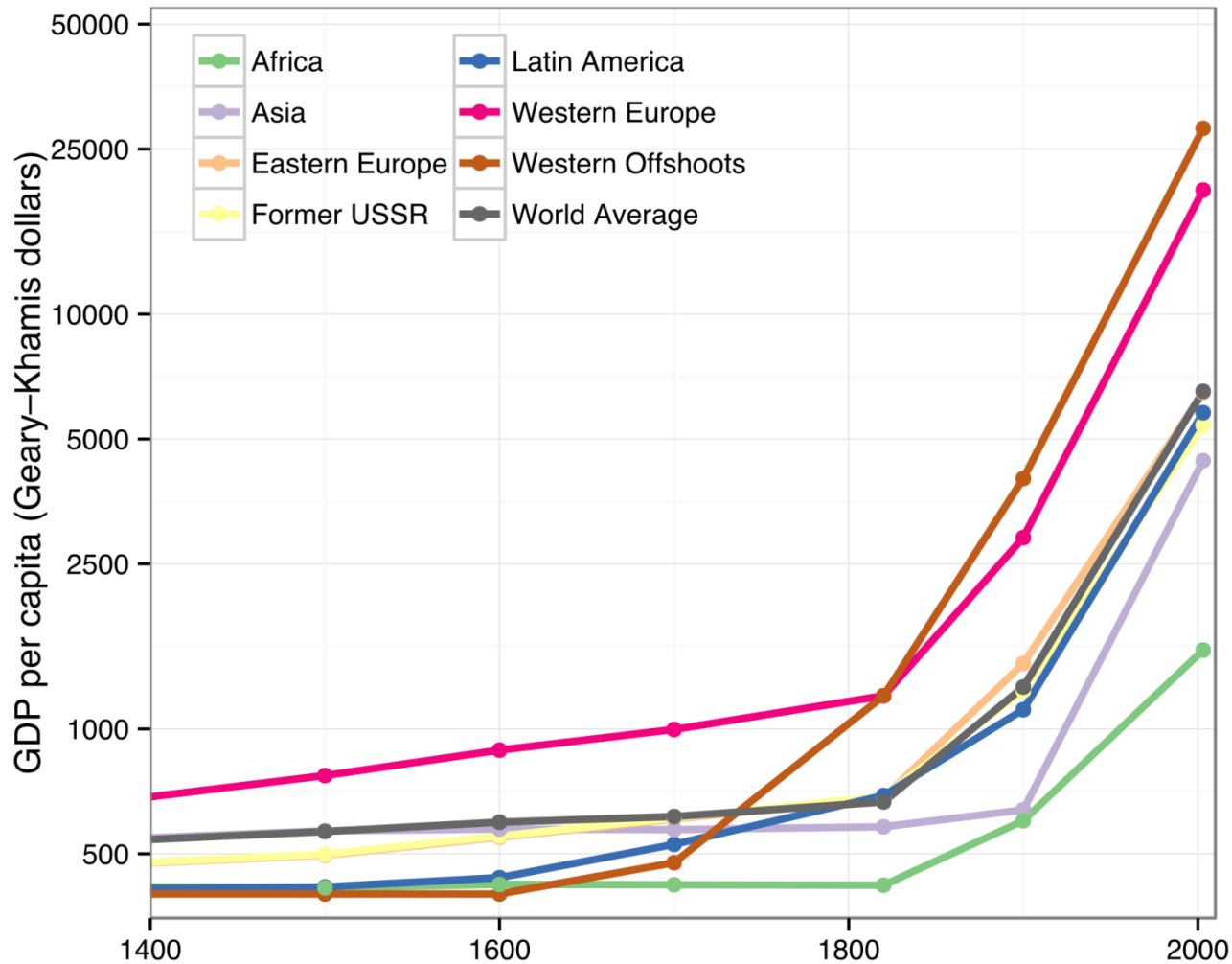


- Second half of chessboard
- 1971 chip Intel 4004 chip
- 2015 Core i5 chip
- 3,500 times faster
- 90,000 X energy efficient
- 60,000 times cheaper
- If 71 Beetle improved as much
- 300,000 mph and 2 mln mpg

An amazing machine



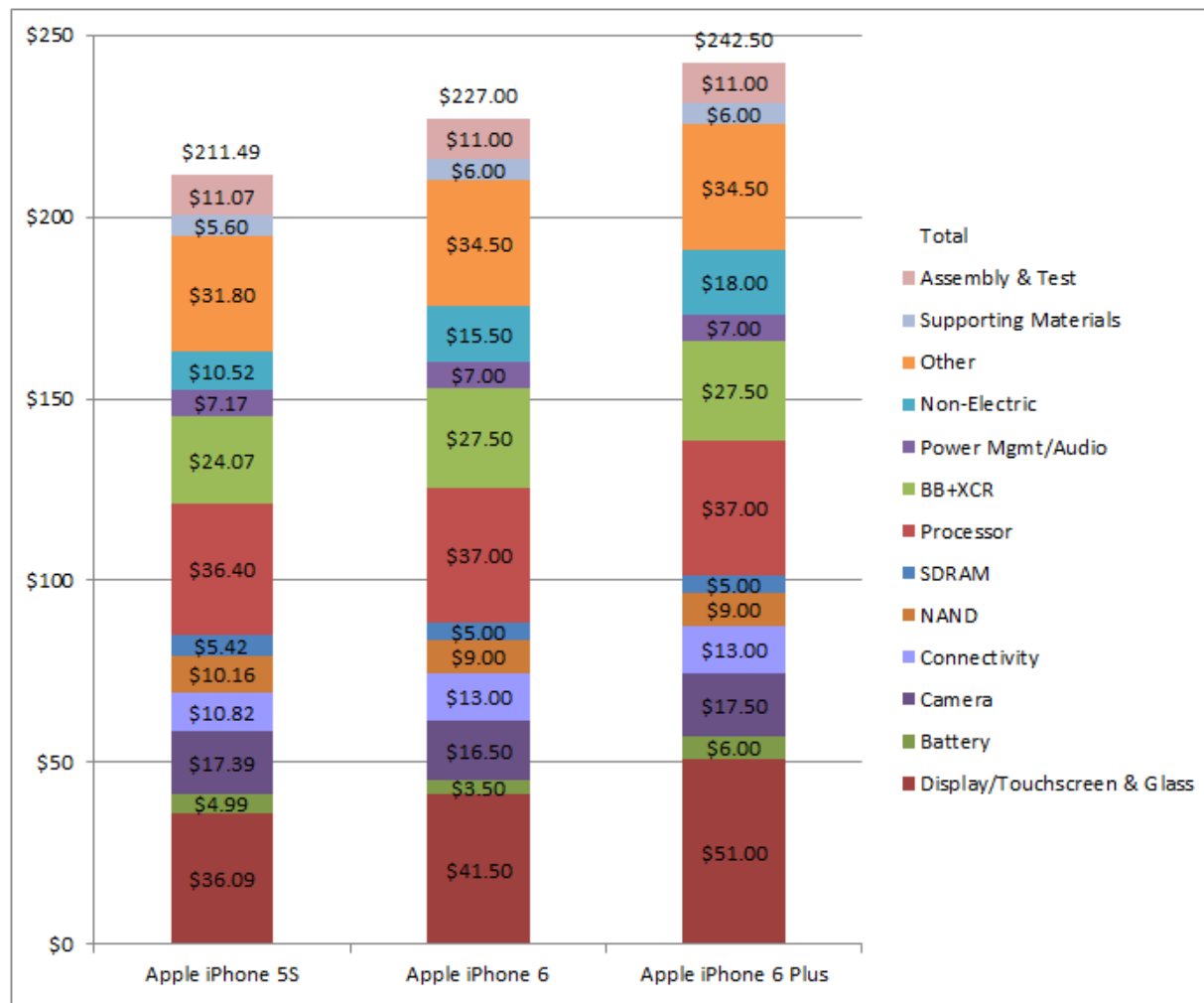
Watt's steam engine



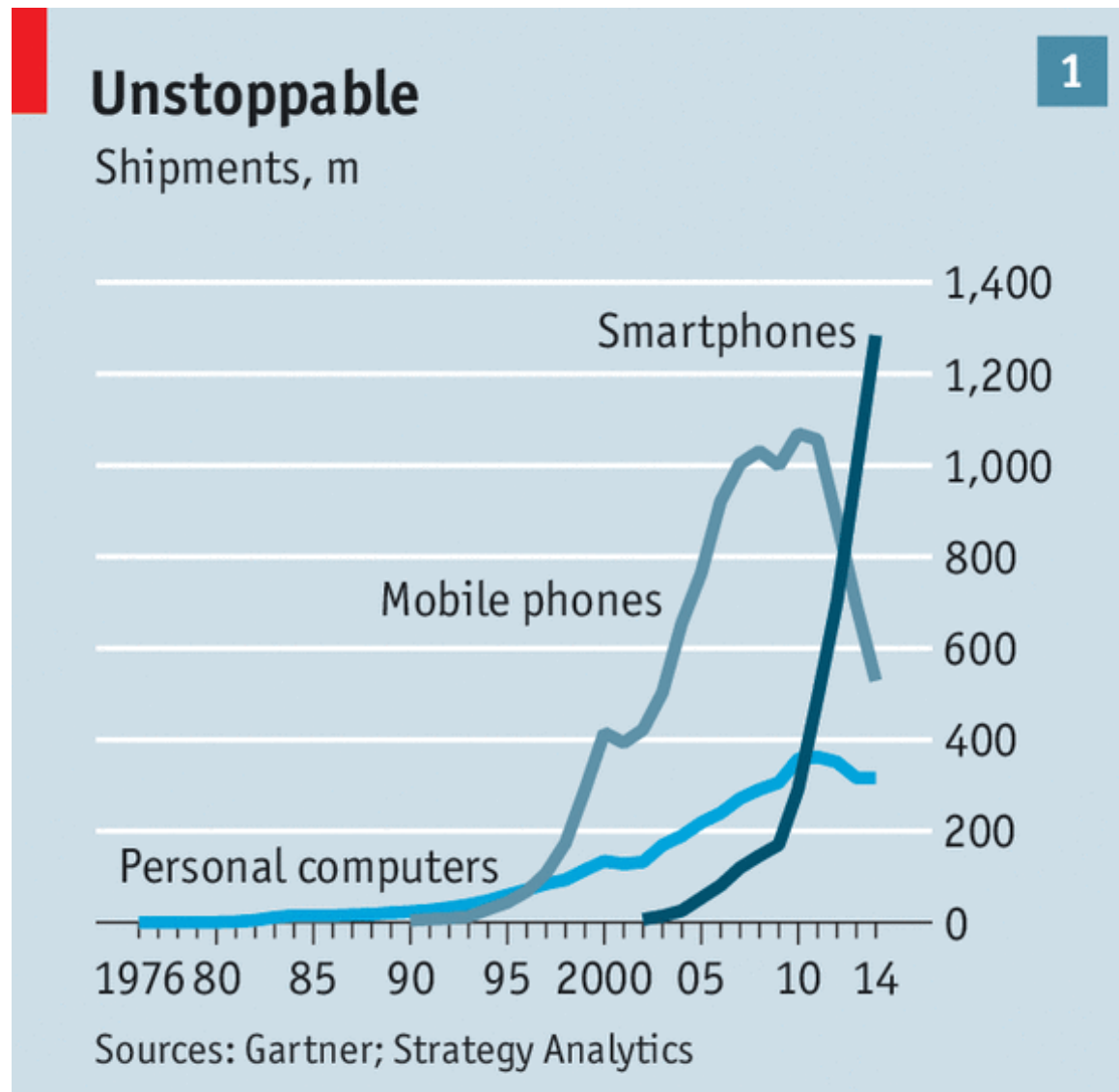
Bigger, thinner, faster



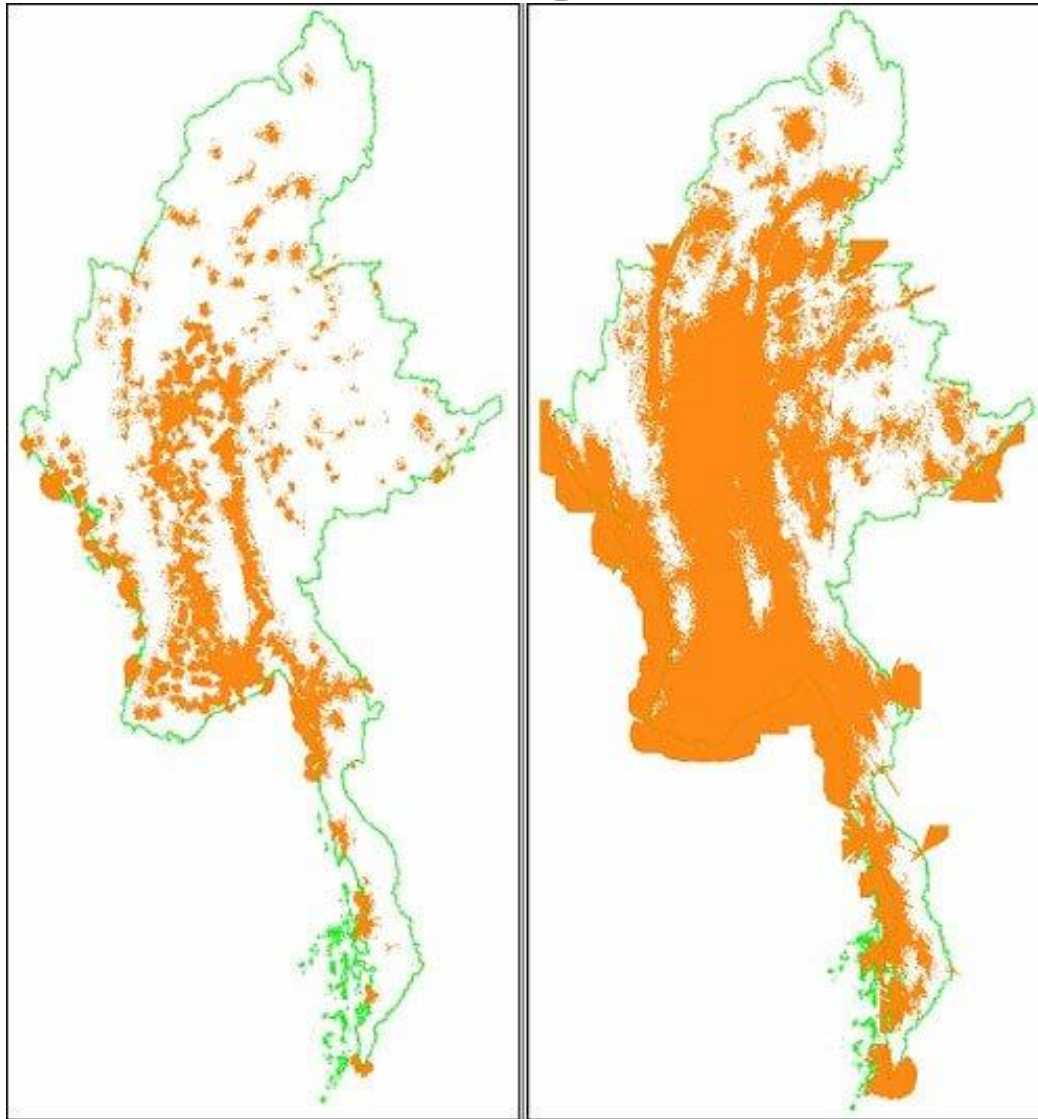
All for US\$242.50



Unstoppable



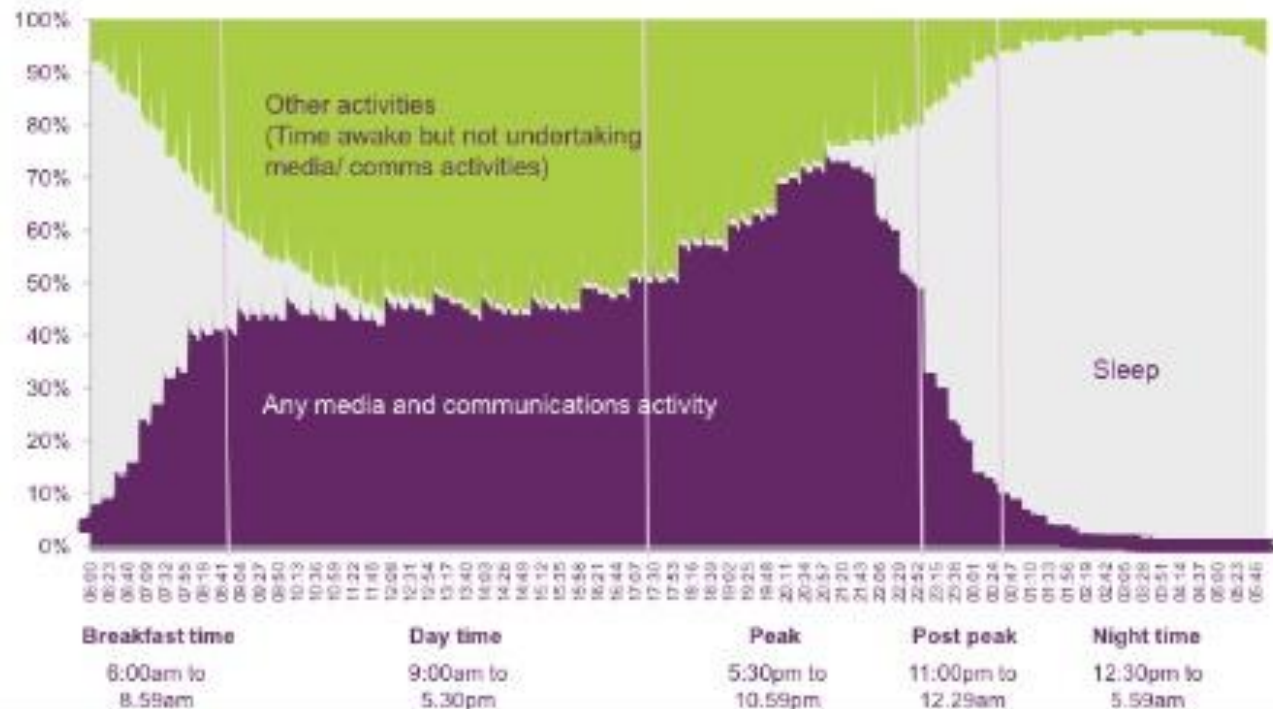
Myanmar goes mobile



CBAFF May 2016 Queenstown

Not much green time

Technology dominates our attention



Source: Ofcom

Music deflation



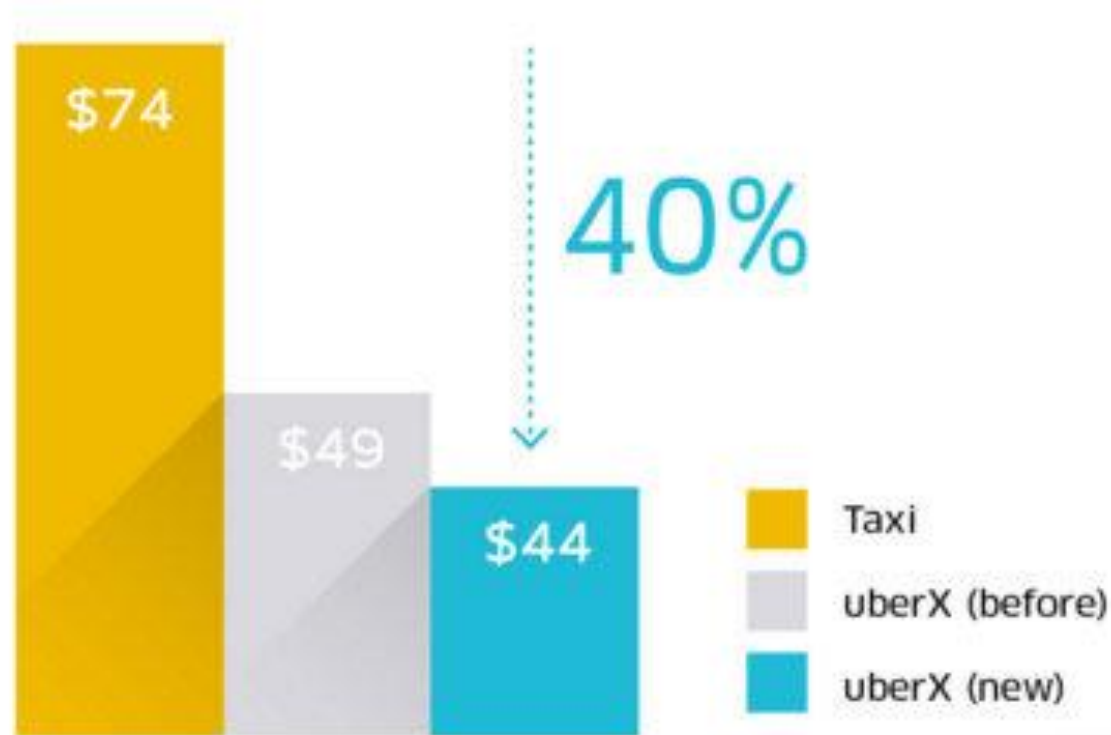
Pay TV deflation

The Netflix logo, consisting of the word "NETFLIX" in a bold, red, sans-serif font, is centered within a light gray rectangular background.

Taxi deflation



Uber cut prices again



Sample fare: Mt Eden to Airport - Mid Day Monday

Telco deflation

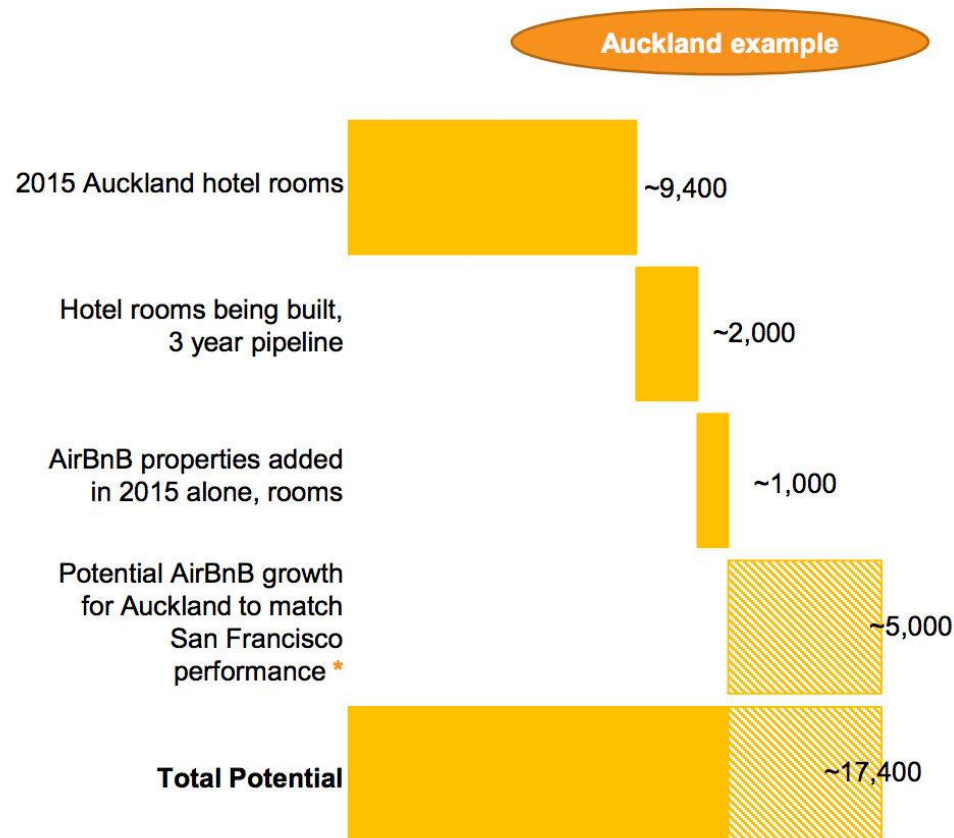


Hotel deflation



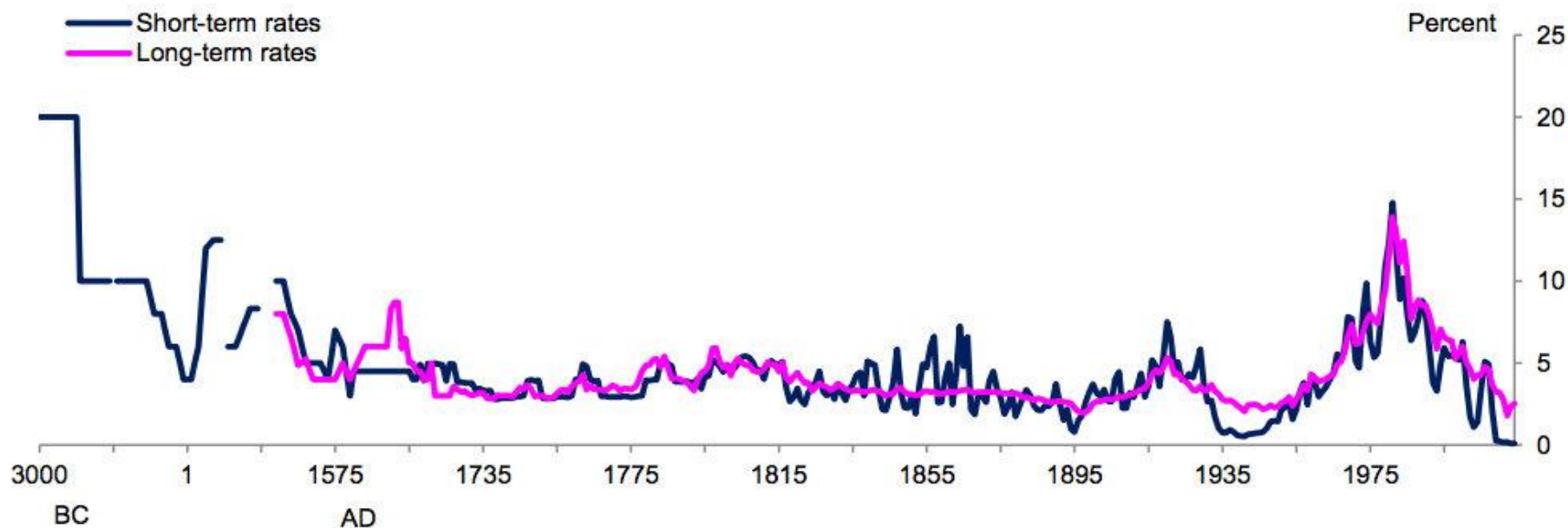
Airbnb in Auckland

Accommodation market responding to underlying economic signals

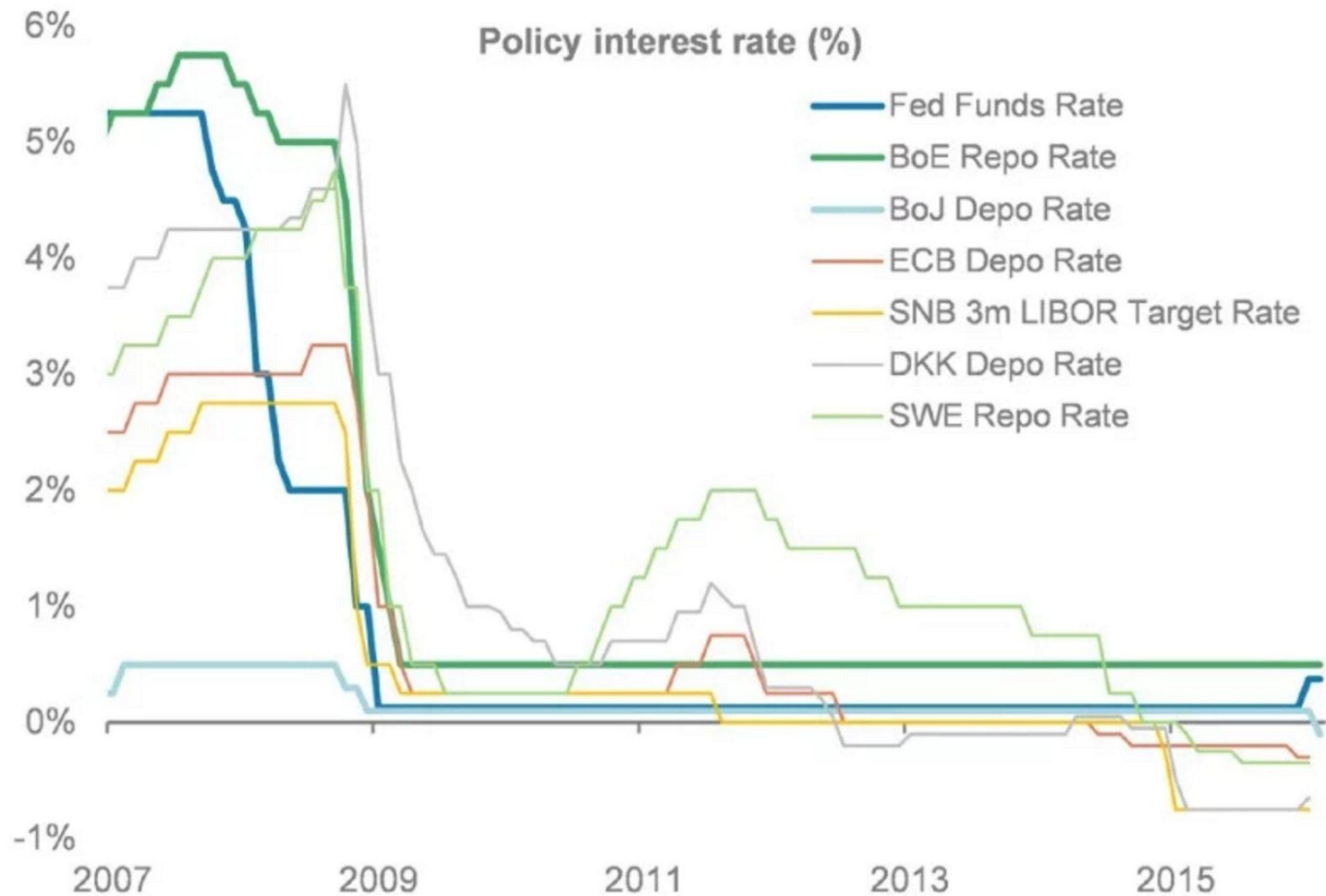


A very, very long view

Chart 5: Short and long-term interest rates



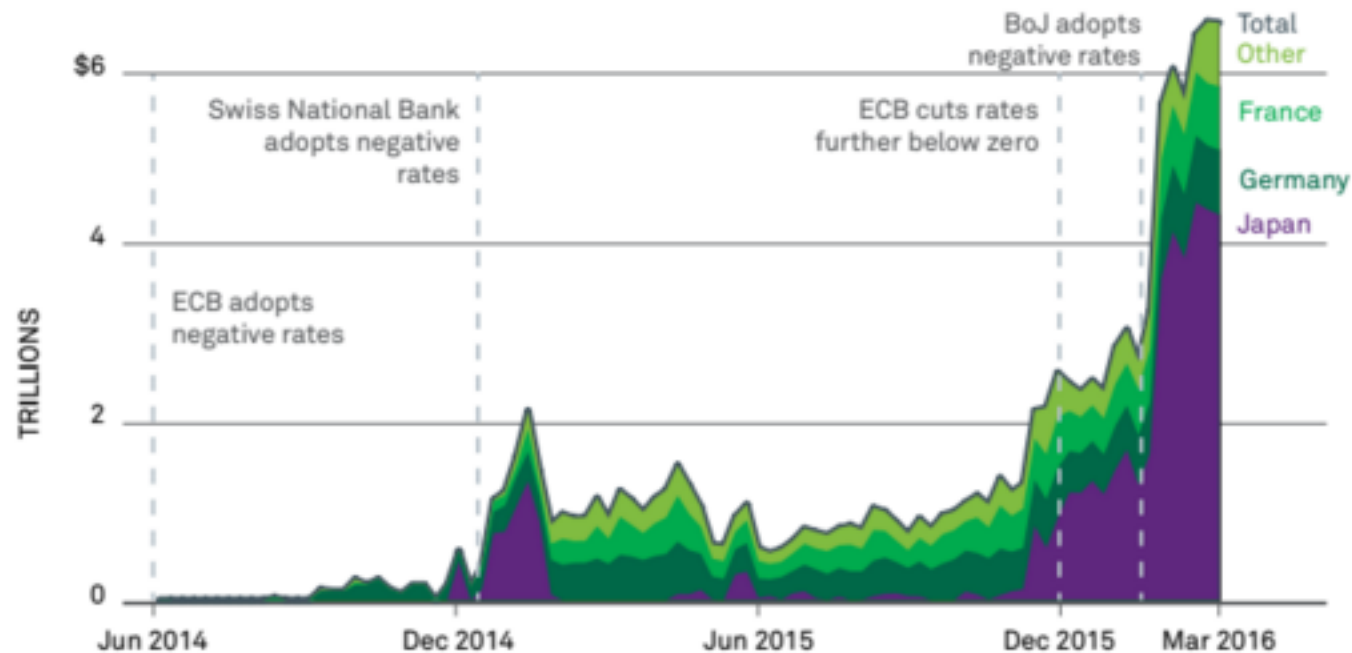
Going sub zero



Now a third of bonds

GOING NEGATIVE

Government bonds with negative yields, 2014–2016



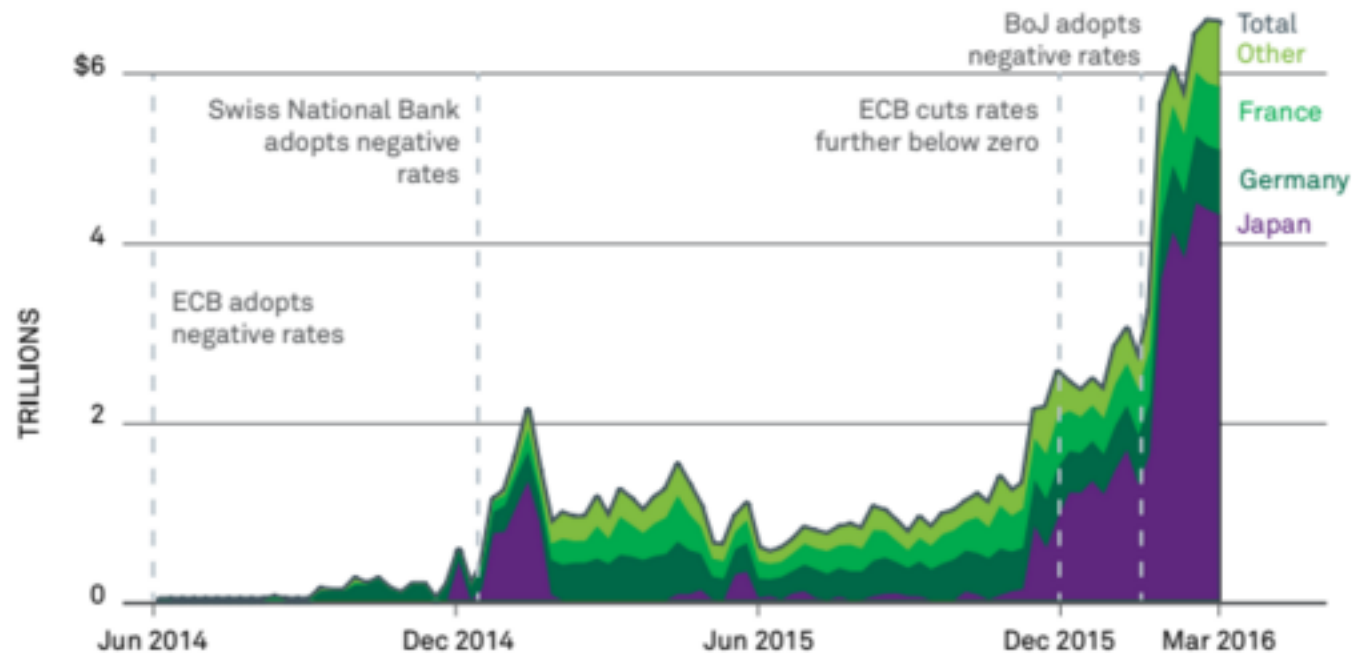
Sources: BlackRock Investment Institute, J.P. Morgan and Thomson Reuters, March 2016.

Notes: the chart is based on the J.P. Morgan Global Government Bond Index.

Now a third of bonds

GOING NEGATIVE

Government bonds with negative yields, 2014–2016



Sources: BlackRock Investment Institute, J.P. Morgan and Thomson Reuters, March 2016.

Notes: the chart is based on the J.P. Morgan Global Government Bond Index.

Slowing trade growth

Flows of goods, services, and finance
(% of global GDP)



Source: McKinsey

FT

Slowing trade growth

Flows of goods, services, and finance
(% of global GDP)

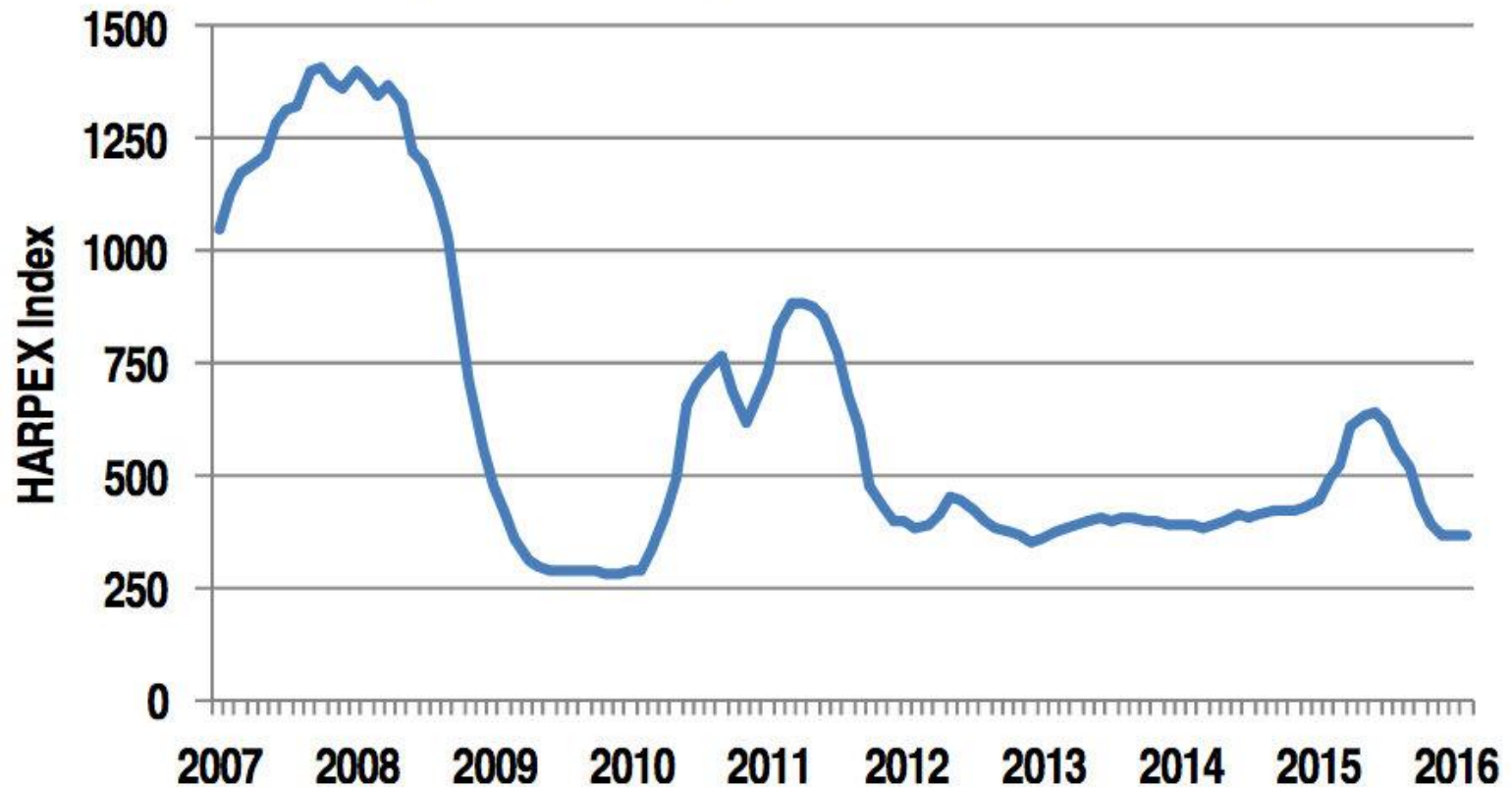


Source: McKinsey

FT

Weak pricing

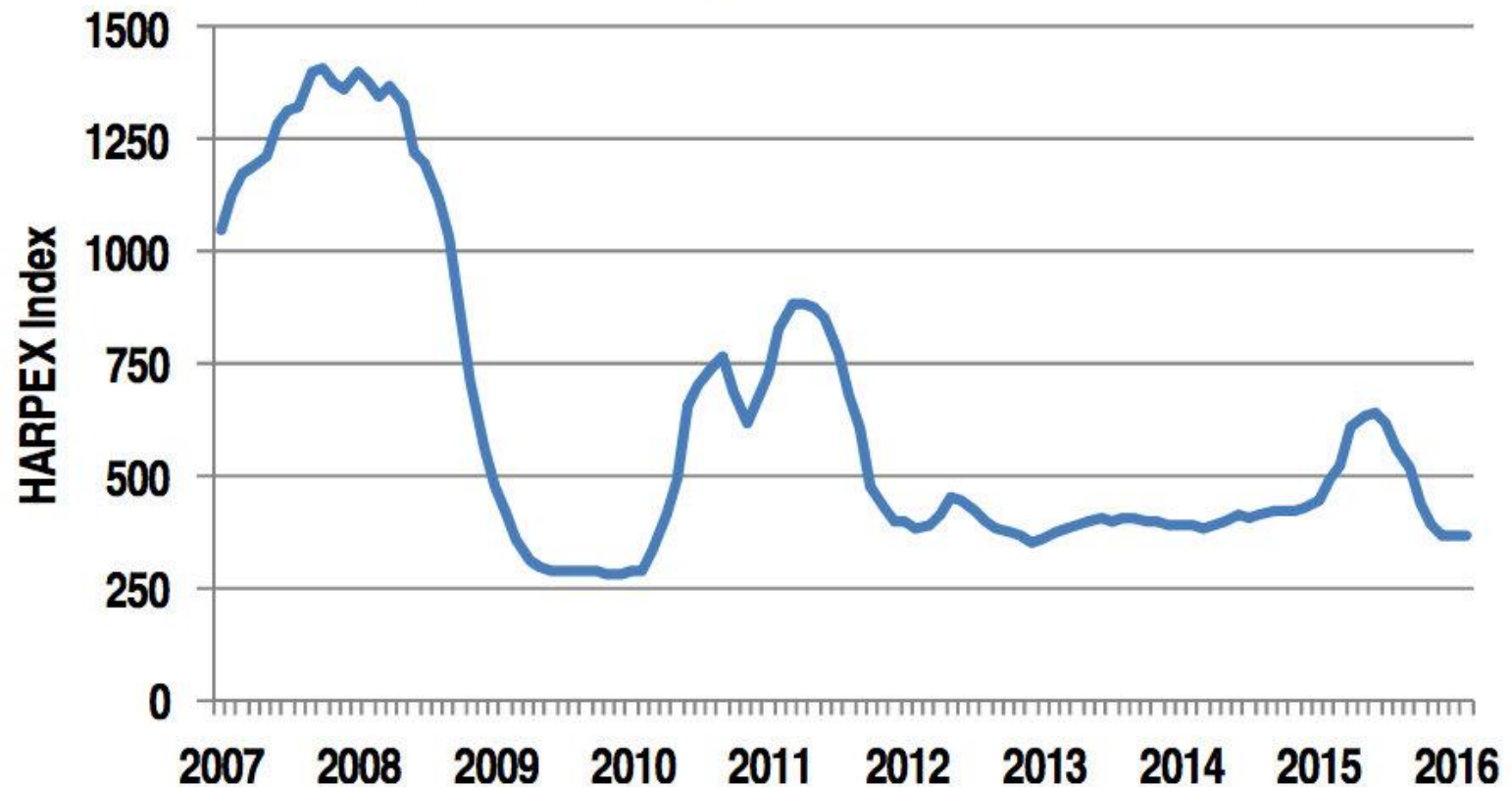
Fig. 10: Monthly HARPEX Container charter rate index 2007 up to January 2015



ISL Bremen, based Harper Petersen & Co., Hamburg

Weak container rates

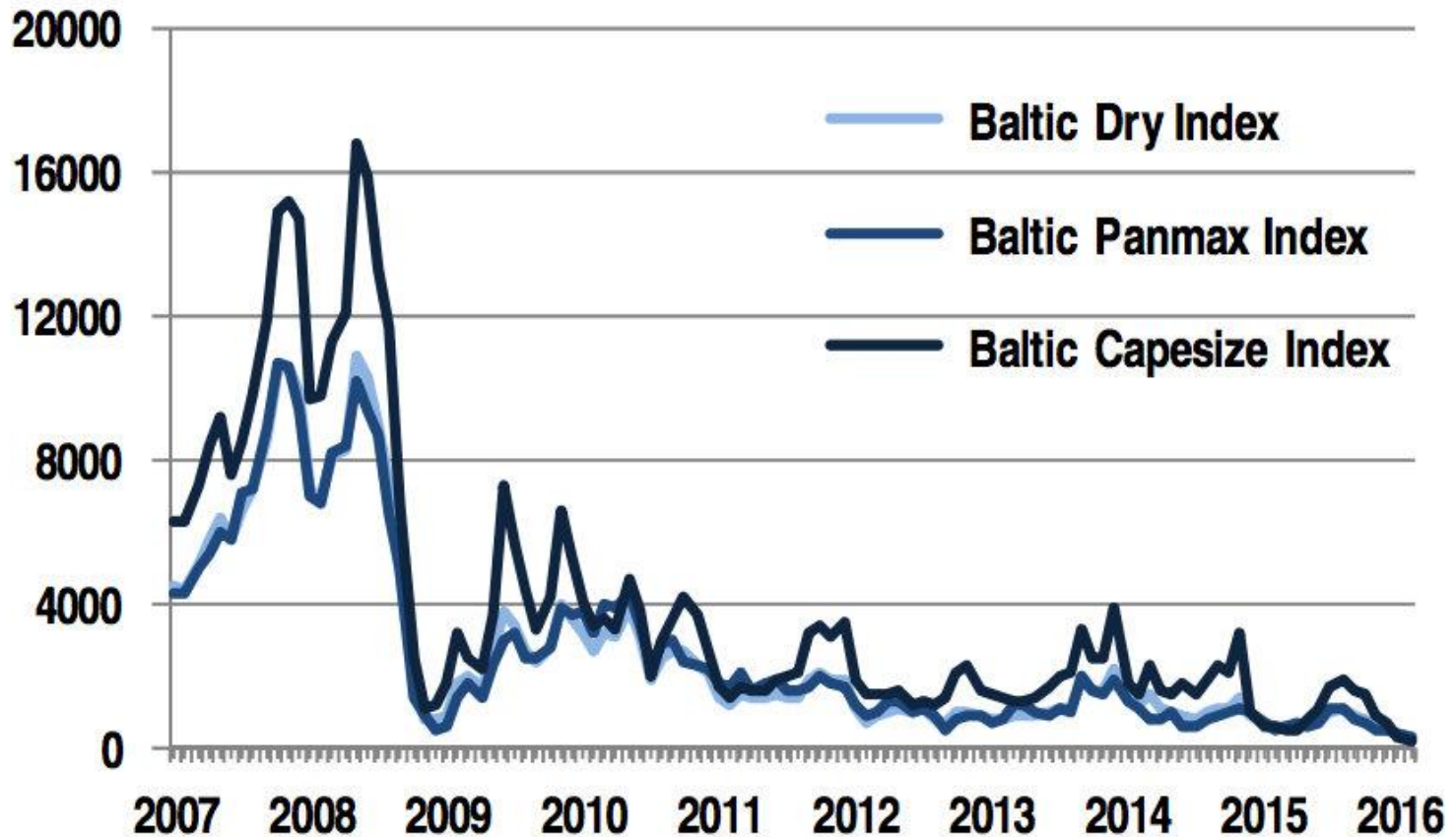
Fig. 10: Monthly HARPEX Container charter rate index 2007 up to January 2015



ISL Bremen, based Harper Petersen & Co., Hamburg

Weak bulk rates

Fig. 4: Monthly development of Baltic indices 2007-2015

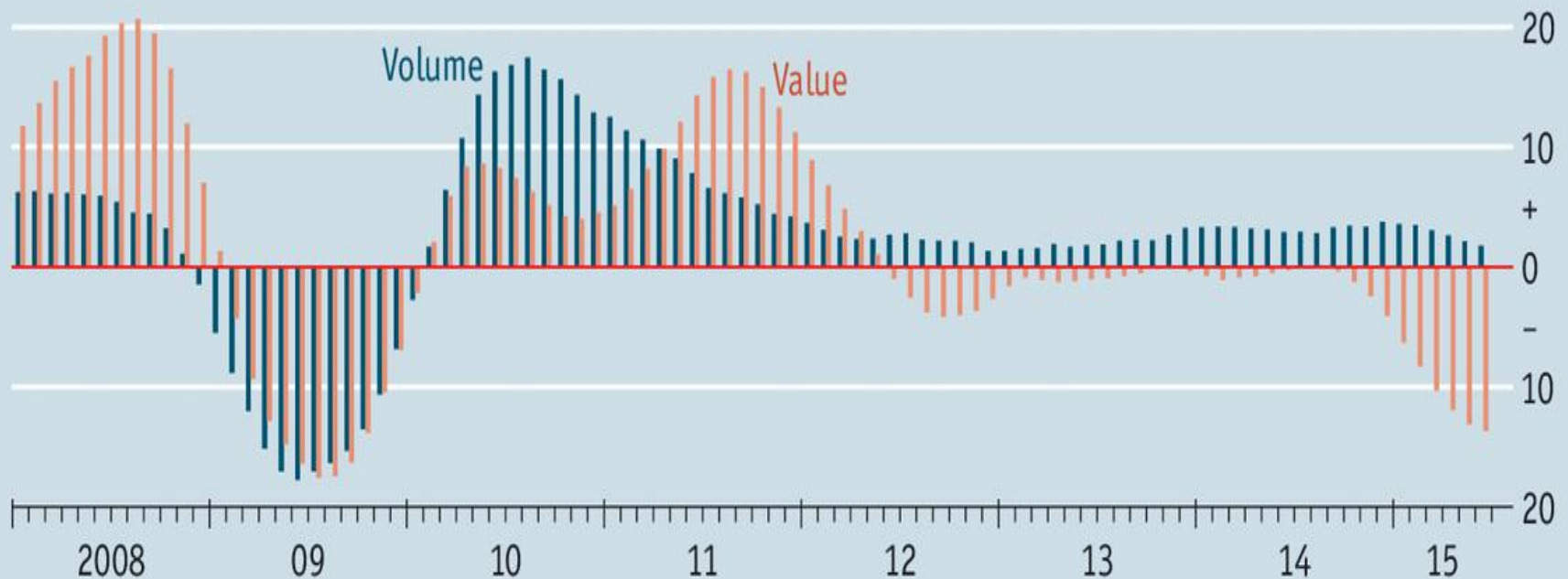


ISL Bremen, based on the Baltic Exchange

Not just weak values

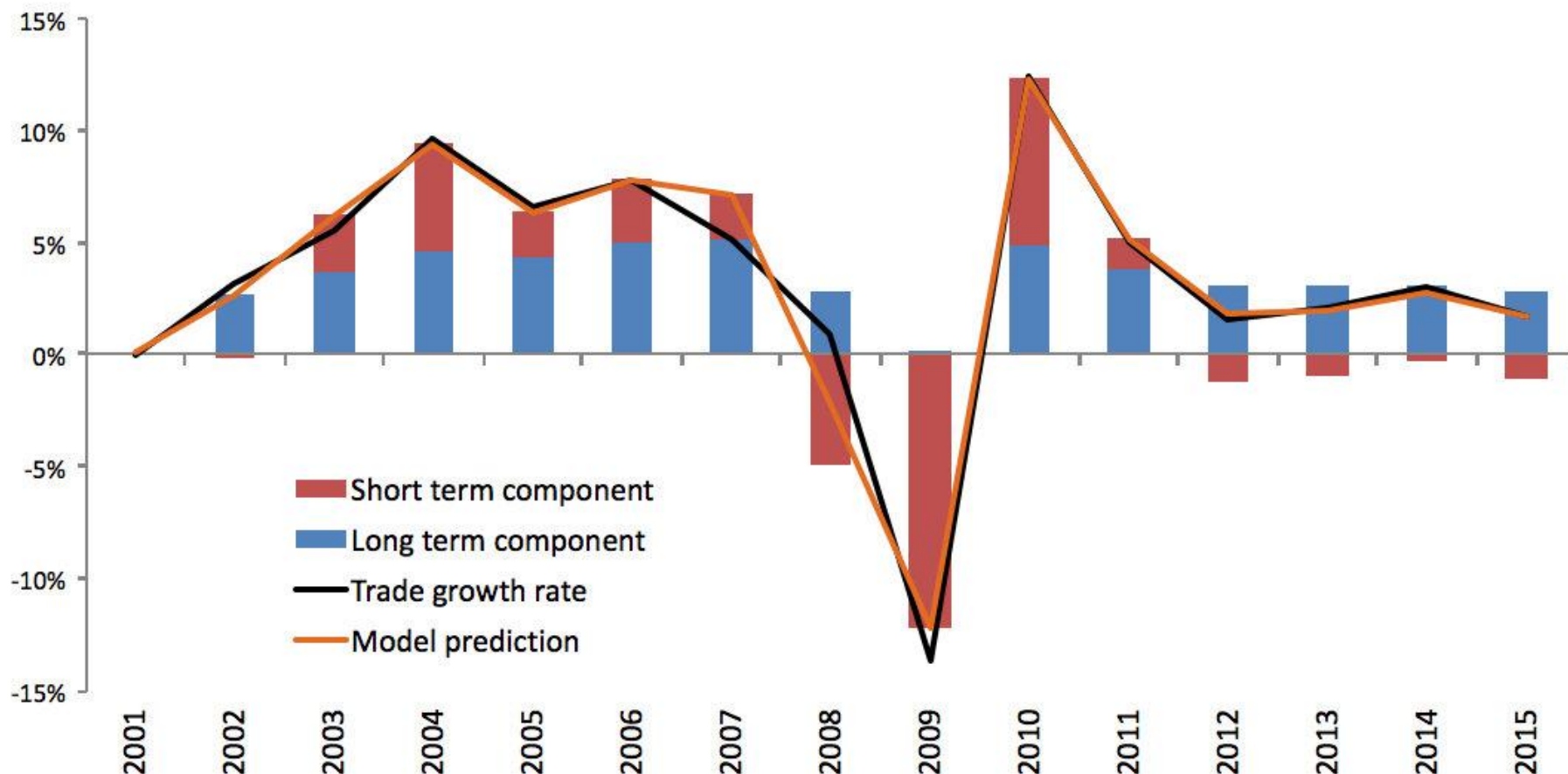
Worse for most...

Global trade, six-month average, % change on a year earlier



Sources: CPB; OECD

Not just cyclical (4.2% vs 2.9%)

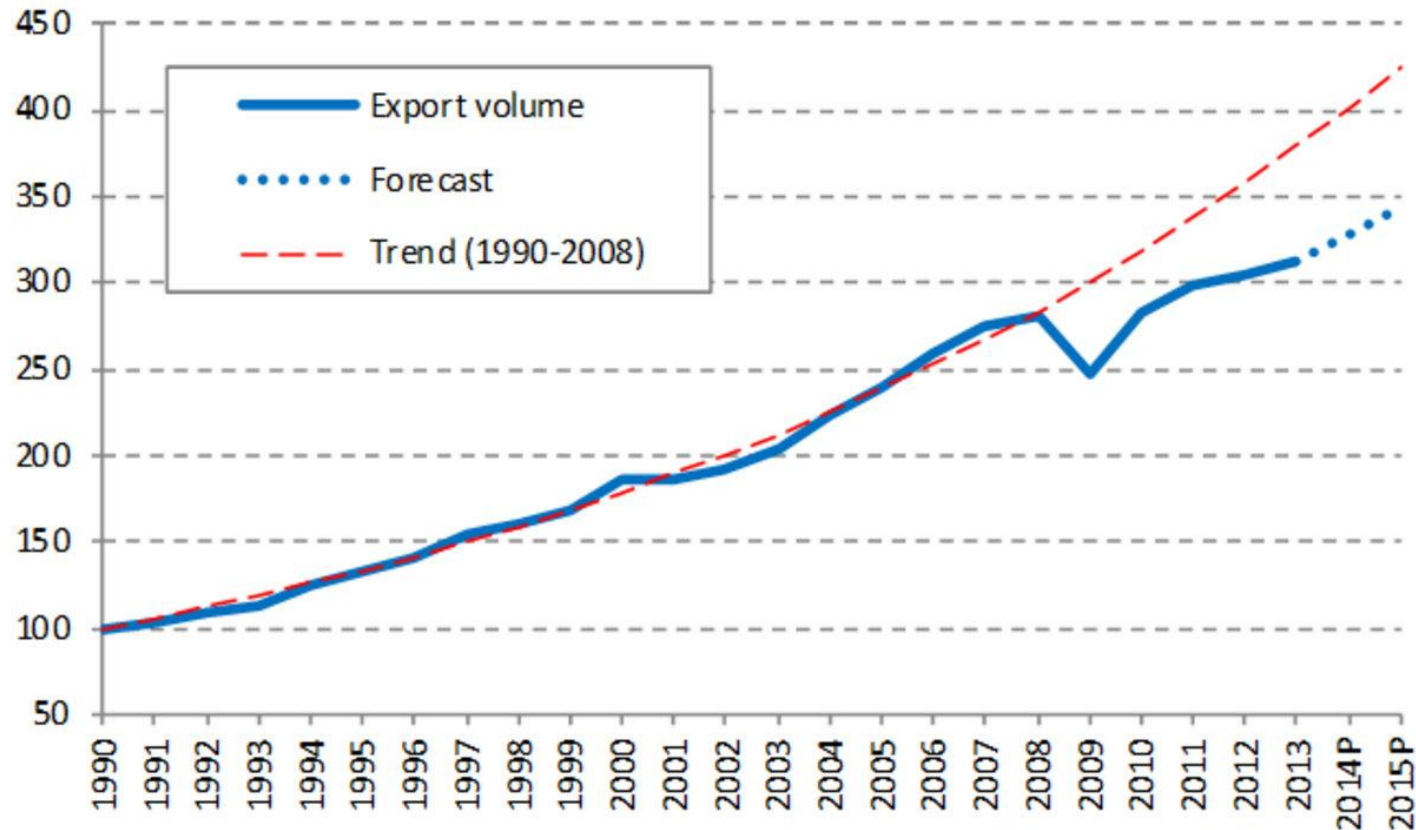


Source: IMF World Economic Outlook, CPB Netherlands Bureau of Economic Policy and Analysis and authors' calculations. Notes: Trade in this figure refers to merchandise imports. 2015 GDP is an IMF WEO estimate.

Minding the gap

Chart 4: Volume of world merchandise exports, 1990-2015^a

Indices, 1990=100

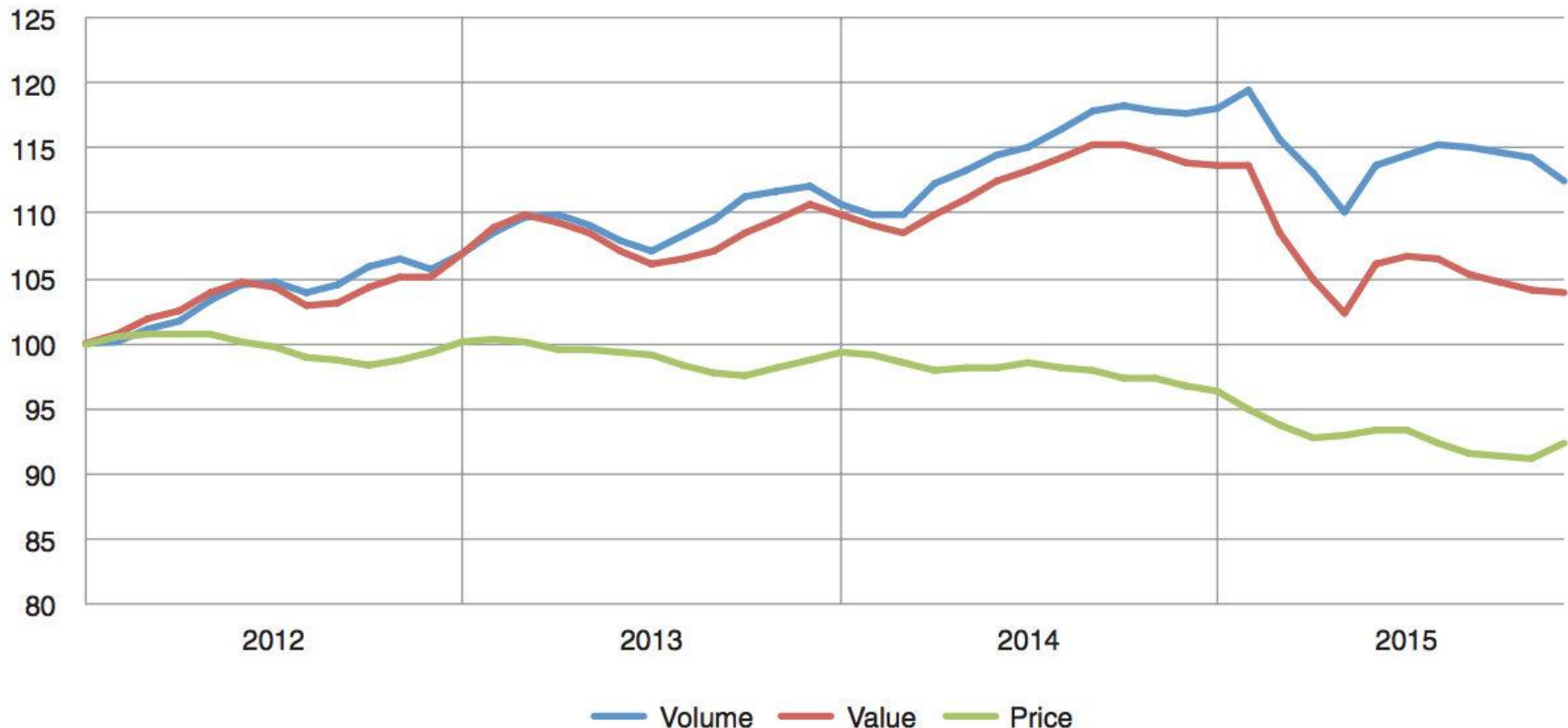


^a Figures for 2014 and 2015 are projections.

Source: WTO Secretariat

China is changing

FIGURE 12: Merchandise Exports of Emerging Asia: Value, Volume, and Price (3-month moving average, January 2012 = 100)

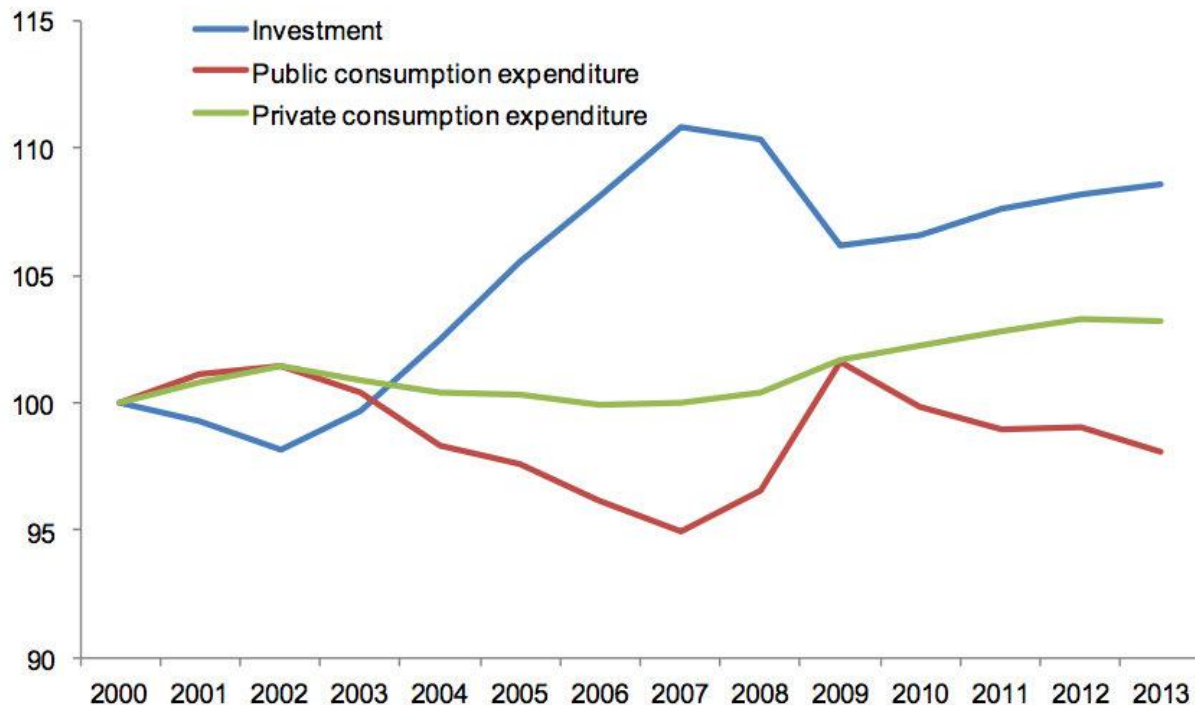


Source: CPB Netherlands Bureau of Economic Policy Analysis.

Note: Seasonally adjusted data.

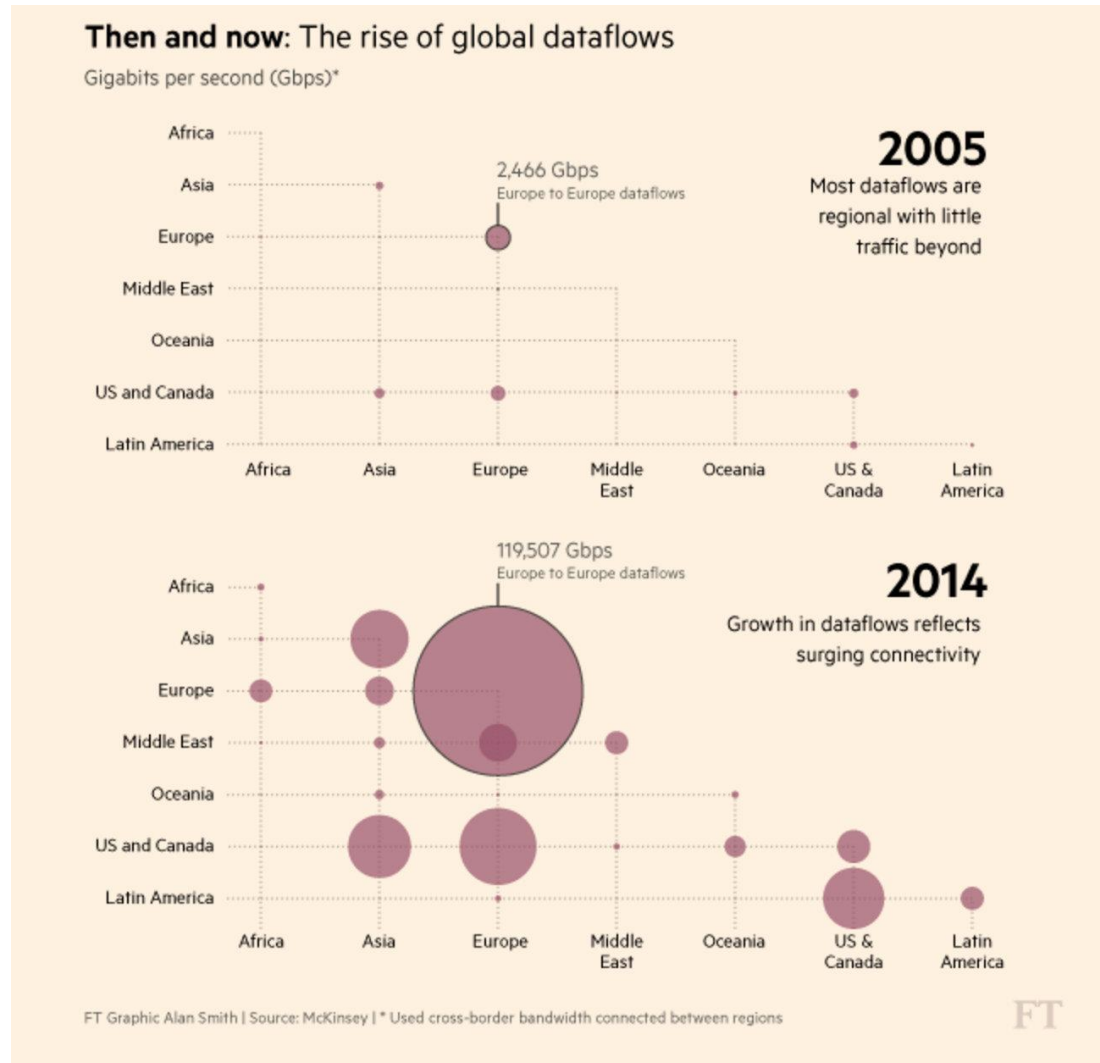
Just not enough investment

Figure 12. Share of Real Investment and Consumption in World Real GDP (index, 2000=100)



Source: IMF WEO

Booming data flows



- Thank you
- Questions
- Challenges

- Bernard Hickey
- bernard@hivenews.co.nz
- 027 866 0011
- www.twitter.com/bernardchickey

